Michael Porter is the Bishop Lawrence University Professor at Harvard Business School and a leading expert on strategy and competitiveness. He also chairs the Harvard Business School's program for newly appointed CEOs of multi-billion dollar corporations. "The Five Competitive Forces that Shape Strategy" reaffirms, updates, and extends his original 1979 publication on strategy.

Porter begins by pointing out that the job of the strategist is to understand and cope with competition. Managers, however, often define competition too narrowly, including only today's direct competitors. Competition for profits goes beyond established industry rivals to also include customers, suppliers, potential entrants, and substitute products. When these forces are intense (airlines, textiles, hotels), almost no firm earns attractive returns on investment in the medium- or long-term. (Short-term factors, such as weather, bad publicity for a competitor, etc. may offer temporary respite.) Where weak (soft drinks, pre-packaged software, and security dealers) sustained high profits are possible.

Porter then identifies the five forces that shape competition, along with examples of recent changes in those forces. He begins with potential barriers to entry for new competitors. These include large supply-side economies of scale, large demand-side benefits of scale - eg. [IBM](http://search.proquest.com.ezproxy.trident.edu:2048/docview/189678633?pq-origsite=summon)'s reputation, customer switching costs (particularly for specialized software), large capital requirements, advantages of incumbency that are independent of scale (eg. location, reputation), and advantageous access to distribution channels (eg. supermarket supply systems).

A second, supplier power, is boosted by being more concentrated by the industry it sells to, not relying heavily on sales to a specific industry, product differentiation (key to avoiding price competition, often achieved through advertising - eg. soft drinks, or financing, inventory, advertising, etc. services provided buyers), lack of substitutes (the Internet's rise has severely impacted travel agents' ability to extract fees from both travelers and travel vendors - hotels, airlines, ships, etc.; patent expiration has major impacts in the drug industry), posing a credible threat to integrate forward, and high switching costs for existing customers.

Buyer power, is Porter's third force shaping competition, and enhanced by high fixed/low variable cost suppliers, lack of supplier differentiation (again, not limited to the physical product), and lack of credible supplier ability to integrate forwards. Porter also points out that buyers are more price sensitive if the product being purchased represents a significant cost component, or the buyers are earning low profits. Buyer power in the appliance retailing business has recently increased due to the replacement of small locally-owned appliance stores by 'big box' retailers such as [Home Depot](http://search.proquest.com.ezproxy.trident.edu:2048/docview/189678633?pq-origsite=summon) and [Best Buy](http://search.proquest.com.ezproxy.trident.edu:2048/docview/189678633?pq-origsite=summon).

Competitor rivalry, the number four force, is greatest if competitors are numerous or roughly the same size, and/or exit barriers are high.

Finally, price competition is most likely when product differentiation is minimal, fixed costs are high and variable costs low, the product is perishable, or when capacity must be expanded in large increments.

Evaluating the strength of competition should not be done subjectively. Many of the factors can be quantified - examples include the percentage of a buyer's total cost accounted for by the supplying industry's product (indicates price sensitivity), the percentage of industry sales required to load a plant or logistical network to efficient scale (helps assess barriers to entry), the buyer's switching costs (assesses the strength of incentives that a rival must offer customers. Perhaps surprisingly, industry rivalry may not be the determining factor - a lesson learned by [Kodak](http://search.proquest.com.ezproxy.trident.edu:2048/docview/189678633?pq-origsite=summon) and Fuji Film through the rise of digital photography.

'Product positioning' is a key decision that strategizers must make. Porter's chooses [Paccar](http://search.proquest.com.ezproxy.trident.edu:2048/docview/189678633?pq-origsite=summon), maker of Kenworth and Peterbilt heavy trucks to illustrate the point. Most heavy trucks are bought by large trucking companies such as Swift, Knight, Schneider, etc. - buyers who emphasize low costs. However, there is also a sizable smaller market made up of owner-operators that own their own trucks and lease services to others. Those owner-operators typically take pride in their trucks and want more attractive interiors. [Paccar](http://search.proquest.com.ezproxy.trident.edu:2048/docview/189678633?pq-origsite=summon) markets to them, providing build-to-order trucks (6-8 week waiting times) and a wide network of roadside service and parts availability. Following this positioning strategy, [Paccar](http://search.proquest.com.ezproxy.trident.edu:2048/docview/189678633?pq-origsite=summon) avoids intense price competition from larger-volume [Freightliner](http://search.proquest.com.ezproxy.trident.edu:2048/docview/189678633?pq-origsite=summon) and [Volvo](http://search.proquest.com.ezproxy.trident.edu:2048/docview/189678633?pq-origsite=summon).

Finally, Porter points out that positioning and operational effectiveness, while necessary, do not suffice as strategy. Today's global markets change too quickly and participants, more often than not, can quickly imitate these components. Thus, strategists should look for a sustainable competitive advantage. But that's another topic.? 5 Stars