SCAN

Supply Chain Analysis for Nutrition

SUPPLEMENTARY TOOL

ST–06

PORTER'S FIVE FORCES

Background

The Porter's Five Forces Framework, developed by Michael Porter of Harvard University in 1979, is a tool for analysing and describing the competitiveness of an industry and thus, it's attractiveness or profitability. "Attractive" industries are those in which the effect of the five forces improves overall productivity, while "unattractive" industries are those in which the effect is the opposite.

The Five Forces are described below and depicted in Figure 1 along with the determinants of each force.

Force 1: Threat of New Entrants

A company's power, profitability, or ability to grow is affected by how many new businesses can easily enter and compete in its market. The less time, money, and political restrictions it costs for a competitive business to enter the industry (the "barriers to entry"), the more it weakens a company's position, lower its profits, and limits its growth.

Force 2: Threat of Substitutes

Competitive substitutes are products or services that can be used in place of a certain company's product or service. An example from the transportation field is one car brand or model substituting another car brand or model. Substitutes can also include other forms of transportation, such as bus, bicycle, subway, or mobile taxis such as Uber, which can replace the need for one to own a car.

For undifferentiated food commodities, substitutes are based on culture and climate zone. For some categories of foods like staple grains (e.g. rice, wheat, or maize), each could be substitutes for one another assuming this is culturally and socially appropriate. When wheat is unavailable, consumers can choose to substitute their purchases with maize. For other categories of foods, such as dairy, there may not be a close substitute available. In this case, consumers might choose to eliminate this product from their diet when unavailable, or substitute with other categories of foods, such as eggs or pulses. Consumers may not always have the knowledge to choose to substitute foods with those that are equally or more nutritious, and such foods may not always be accessible to them for a number of reasons.

Force 3: Bargaining Power of Customers/Buyers

Customers and buyers often have some power or ability to drive down prices, generally based on how many customers there are or the size of the market they represent, the cost or ability for the customer to find a suitable substitute, and the price sensitivity customers are to those products. If there are only a few large buyers, they can use their exclusivity power to drive down the cost of goods from their suppliers. If customers are price sensitive to substitutes or substitute products are not available, they will have a difficult time affecting prices.

gain Global Alliance for Improved Nutrition

Force 4: Bargaining Power of Suppliers

Suppliers also can have some power or ability to affect prices and often they prefer to drive up the price of goods or services to their benefit as a seller. This power is generally based on the number of suppliers; how unique or limited substitutes are; and the economic, social, and political cost for buyers to switch suppliers. The fewer the number of suppliers and the more a buyer depends upon a supplier, the more power the supplier holds to drive prices up.

Force 5: Competitive Rivalry

Competitive rivalry refers to the number and size of other businesses in direct competition. If a company has many rivals competing for the buying or selling of goods and services, the lower power they have and the greater likelihood that the cost of supplies and goods will go up. With only a few competitors, a company has better ownership of the market and will be more likely to have higher sales volumes and thus profits.

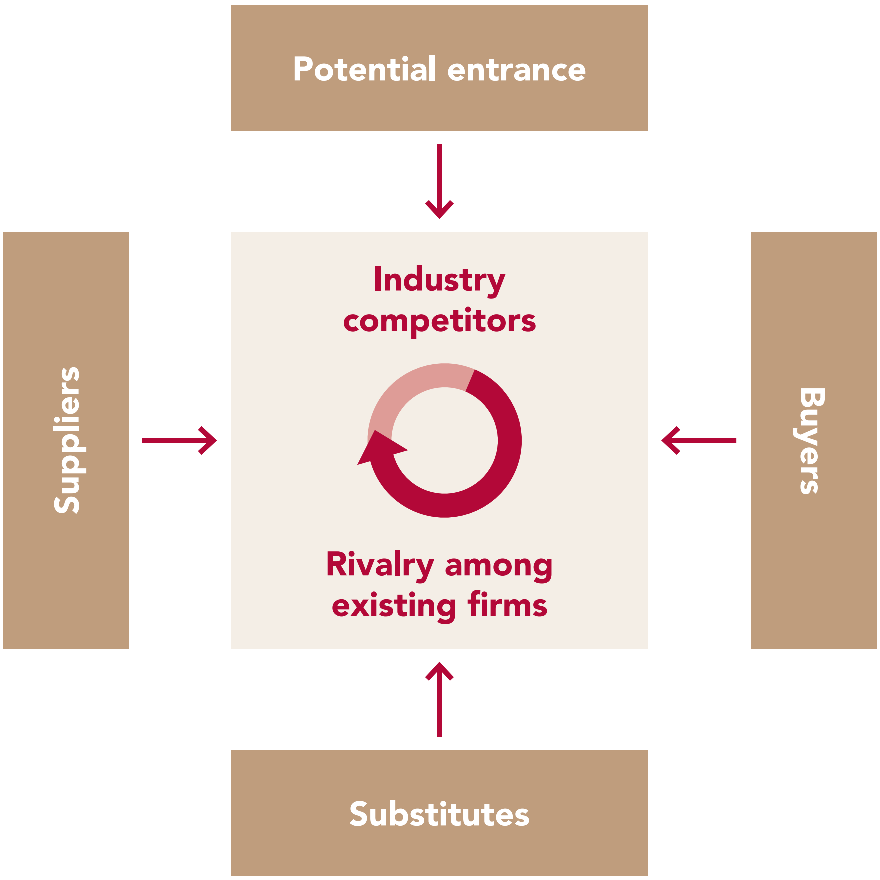

Figure 1: Porter's Five Forces

DETERMINANTS OF SUPPLIER POWER

Differentiatian of inputs
Switching costs of suppliers and firms in industry
Presence of substitute inputs
Supplier concentration
Importance of volume to supplier
Cost relative to purchases in the industry
Impacts of inputs on costs or differentiatian
Threat of forward integration relative to threat of backward integration by firms in the industry

DETERMINANTS OF OBSTETRICIAN THREAT

Relative price performance of substitutes
Switching costs
Fire propensity to substitute

DETERMINANTS OF BUYER POWER

Bargaining leverage

Fire concentration vs. firm concentration
Buyer volume
Buyers switching costs relative to firm switching costs
Buyer information
Ability to backward integrate
Substitute products
Pull-through

Price sensitivity

Price/total purchases
Product differences
Brand identity
Impact on quality/performance
Buyer profits
Decision-makers incentives

ENTRY BARRIERS

Economies of scale
Proprietary product difference
Brand Identity
Switching costs
Capital requirements
Access to distribution
Absolute cost advantage
Proprietary learning curve
Access to necessary inputs
Proprietary low cost product design
Government policy
Expected retaliation

RIVALRY DETERMINANTS

Industry growth
Fixed (or storage) costs/value added
Intermittent overcapacity
Product differences
Brand identity
Switching costs
Concentration and balance
Informational complexity
Diversity of competitors
Corporate stakes
Exit barriers