The 5 Forces Competitiveness Map

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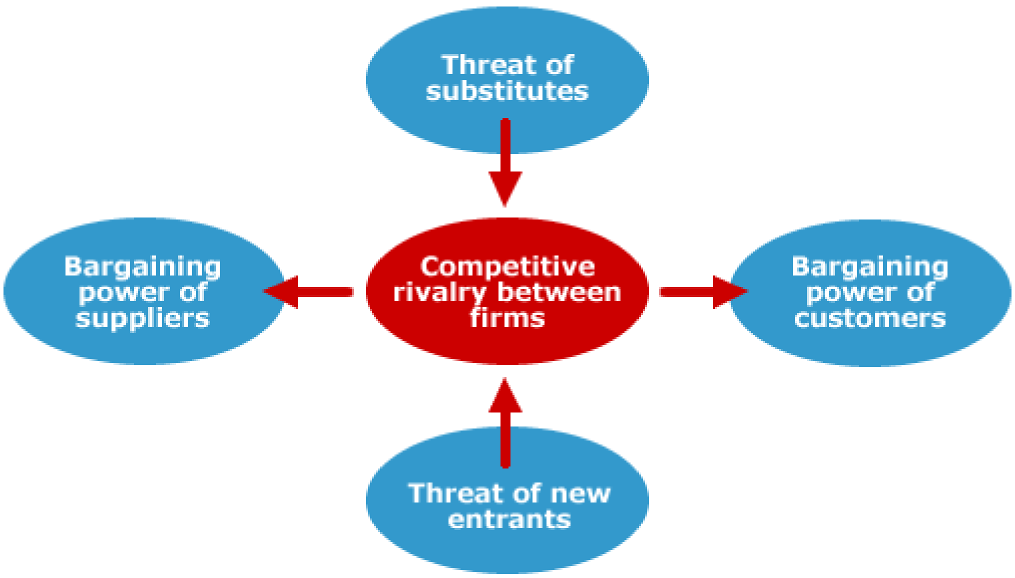
This is a simple map that represents the competitive strategic battlefield in terms of five forces that interact to shape the challenges for firms. These five forces are graphically represented in the following diagram.



At the centre of the map, **the competitive rivalry between firms** themselves is the first force impacting on the firm. This refers to the competition between the various players in a particular sector or niche who are trying to do the same things. They are constantly jockeying for position and trying out new things (product and process innovation) in order to develop a strategic edge and hence a stronger position in this space.

But all of the firms in this competitive space have to confront not only what each other is doing, but also **the bargaining power of suppliers** and the **bargaining power of customers**. The relative balance of power between the firm and its suppliers on the one hand, and the firm and its customers on the other hand, has a huge impact on determining the options available to the firm in any given strategic situation.

In some cases the suppliers are strong - for example, a major steel producer selling to a small metal fabricator - in which case the client firm has a weak position and its ability to compete will depend a lot on the major supplier. If, for example, the supplier raised prices, the firm would have little option but to carry that cost. Of course, the relationship is not always weak in this direction; the major automobile assemblers, for example are in a very strong position in respect of their thousands of suppliers, and can use this to obtain inputs to their activities in ways that support their own strategies. The classic example of this is the Toyota Production System that developed a network of suppliers who would supply the right quality and quantity at a point just in time for Toyota to use in building its cars. In terms of our model, Toyota's suppliers have very weak bargaining power.

Another key force impacting on the firm's strategic options is the **threat of substitutes** - a company's strategic position depends on the extent to which what it offers is unique and cannot be replaced by something else.

For example, a firm specialising in typewriters would need to recognise the weakness of its position and move out of this product area into something else - for example, word processing software or hardware. Equally, a firm that has a product that cannot be easily substituted (eg. the paper for the typewriter in our example) - either because it is unique or because it has some form of protection (eg. a patent) is in a strong position.

Finally, the firm needs to consider the **threat of new entrants** - the final way in which a company's competitive position can be altered is through the entry of new competitors who may offer the same products or services at lower prices or with some other advantages. The extent to which there are high 'entry barriers' - for example, high capital cost or difficult to acquire knowledge - is an indicator of strategic strength. Of course, both the threat of substitutes and the threat of new entrants are very susceptible to changes in the rules of the game - for example, a new technological could simultaneously open the door to substitutes and lower entry barriers to other players.

Strengths and weaknesses of the 5 forces model

Whilst it is a powerful and simple tool for analysis, offering a "map" for understanding strategic options, the 5 forces model doesn't look in great detail at the choices, or the ease, or difficulty in following a particular course of action. Its main value is as a thought provoking aid to discussion to help arrive at a shared understanding of the threats and opportunities facing the firm.

Hints for using this tool

In terms of developing a strategy around core competencies, the model can provide insight into the following areas (amongst others):

• **Competitive rivalry** - look for niches where there are few firms as rivals and then benchmark your competitive edge against them. Or else look for growing markets in which more firms can still hold on and grow shares.

• **Bargaining power of suppliers** - use this to explore issues of balance and how to develop advantageous relationships. For example, if your suppliers are exploiting their strong bargaining position (like the steel maker) then a strategic response on your part might be to explore alternative sources of supply or even alternative materials or processes so as to reduce this dependence. Equally, if the supplier power is weak, one strategy might be to exploit this weakness by tying the supplier into price reduction or other contract requirements that provide strategically advantageous inputs to your firm.

- **Threat of substitutes** - you may need to consider how investing in R&D can help you develop specialised knowledge by learning how to do something that others cannot do. This does not always have to be high technology.