

### Evaluating Industry Attractiveness Using Porter's Five Forces Model

Understanding the five forces and their effect on the landscape that a firm competes in is a cornerstone of successful strategic analysis. Figures 2.4 through 2.9 are general analytical tools used by a number of Fortune 500 firms to evaluate the intensity of the five forces in an industry, either their own or one they are thinking about entering.<sup>50</sup> These tools essentially help to quantify the ideas that we have already discussed in this chapter. In practice, top management often implicitly understands the dynamics of the five forces and might not personally use the tools presented here to map out the strength of each force and its overall effect on industry profitability. However, a number of Fortune 500 firms use these tools in their strategic planning departments to provide rigor to the strategic analyses and recommendations they present to top management. Although the tools might appear complicated, they distill the concepts from this chapter, allowing a relatively simple, yet comprehensive and detailed analysis of the five forces.

You can look for the data to complete these analysis tools in the sources listed in the appendix at the end of the book. Many of the

indicators in these analysis tools are objective numbers that you can obtain from various data sources. Others are more subjective; they require a logical argument for the level—low, medium, or high—that you choose. Even for more subjective indicators, however, data from various sources, for instance, articles in the business press, can take the guesswork out of doing a five-forces analysis.

To use the tools, for each separate item, put an X in the box that most accurately reflects the data you have gathered on your industry. For some boxes this is a range of data, for instance, 60 to 70 percent combined market share in the rivalry tool. If the correct number is anywhere within the range, put an X in the appropriate box. Cite your data source and/or explain the logic of your placement underneath each item. Your answer for some rows of boxes will be an average of more than one item. For instance, in the rivalry tool, the degree of industry standardization is the average of the four items below it.

After filling out each item, you will use the columns. Each column is assigned a number, 1 through 5. The columns will help you to find the correct answer for elements that have subsets to them. For instance, in the rivalry worksheet, you need to determine whether the degree of industry product standardization is low, medium, or high. The low,