PORTER ANALYSIS TEMPLATE: Ó1999 by David Thrope

The Model:

	Potential Entrants Barriers to Entry	
Power of Suppliers	Industry Competitors	Power of Customers
	Substitutes	

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An Example of a Porter Analysis of the Fast Food Hamburger Restaurant Industry

	Potential Entrants: • Small start-ups for localized business • Well financed groups Barriers to Entry: • Capital • Reputation • Supplier Relations • Unique Product/Image	
Power of Suppliers • Favoritism toward national chains • Little in relationship to McD's etc. • Control of market for small players lacking leverage • Restaurant designers • Builders • Produce suppliers • Major food processors	Industry Competitors • McDonald's • Burger King • Wendy's • Rally's • White Castle • Others	Power of Customers • Choices allow customers to seek out competitors • Families • Diners (patrons) • Investors(For restaurants)
	Substitutes • Health Foods • Hot Dogs • Poultry • Pasta • Mexican Food • others	

Comments:

The industry is characterized by continuous price cutting and expanding menus to attract customers from rival concepts and menus. The result is unfocused concepts for many of the players. Service has declined (service is defined by speed of delivery and consistency of product) as costs are cut in each unit. Franchised stores characterize this industry. This means that each restaurant chain (each player) has two major product lines to offer- restaurants and food. Still, it is an expensive game to play requiring up-front capital of $500K to $1,500K to open a unit.
In looking at Porter's 5 forces, the following questions have to be asked by all organizations when developing their strategies.

1. Do we have the resources necessary to enter an industry and compete effectively or are the resources better deployed elsewhere? When viewing who the new entrants might be, there is also a price to be paid to play the game. As a new player, can an organization actually shake up an industry? What options exist to play a particular game? If I want to be a new player in the microcomputer industry is it better to buy Apple or to start from scratch?

2. Once I am established in an industry, who will have the bargaining power, my organization or the suppliers and buyers. McDonald's and Sears have been notorious in dictating prices to their suppliers. When McDonald's first introduced salads, they became one of the largest purchasers of lettuce. They also became the largest and only purchaser of the containers the salad was served in. A thermoforming (packaging) company in Pennsylvania got the McDonald's account. What that company never asked was "What if we lose it or what if we can't supply at the price McDonald's wants?" Inevitably, the thermoformer lost the account and took a bath. The problem was that a small company did not have the resources, financial or to supply McDonald's. This is an example of too much growth, too fast. A customer like McDonald's was outside the definition of the company - but without strategic planning, they would not have know this. This example of a misalignment of an organization with its environment occurs too often.

3. Substitutes always exist. The definition of a business, it's mission and vision may be expanded or focused to deal with changes in the environment (technological, political sociological). What exactly is a substitute? The definition includes products and/or services. A paper coffee cup is a substitute for an expanded polystyrene coffee cup. A paper Big Mac container is a substitute for a plastic one. When consumers raised environmental concerns in the 1980's, McDonald's listened and reacted. Their reaction and consumer concern should have been the warning signs that would allow manufacturers of polystyrene containers to be wary. Mobil Chemical reaction was a ton of PR. In the early 1990's Mobil divested. BASF now is the proud owner of a vertically integrated polystyrene operation. Should Mobil have looked at their customer base, looked at social and political considerations and made an investment in the paper & pulp industry? Keyes Fiber was able to do that by divesting their plastics operation and focusing on the paper end.

How an organization defines its industry and its substitutes is in the eye of the beholder ... the company, its vendors and customers. If vendors and, especially, customers don't see eye to eye on this, then someone needs a reality check. If I am Trek (the bicycle maker), am I in the transportation industry (like GM, Boeing, Bath Iron Works), the land transportation industry (Ford, Rosignol), or the bicycle industry?