Porter’s Five Forces and IBISWorld industry reports

Porter’s Five Forces is a framework for industry analysis and business strategy development formed by Michael E. Porter of Harvard Business School in 1979. It draws from industrial organization economics to derive five forces that determine the competitive intensity and, therefore, profitability of a market. In his research, Porter found that 19% of a company’s profitability is determined by the industry in which it operates.*

1. Threat of new entrants
2. Buying power
3. Supplier power
4. Threat of substitutes
5. Industry competitors

Determine an industry’s potential using IBISWorld industry reports and Porter’s Five Forces

Dissecting IBISWorld Reports with Porter’s Five Forces

PORTER’S FIVE FORCES

1. Threat of new entrants

COMPETITIVE LANDSCAPE
Barriers to Entry
This section outlines factors that can prevent a new company from entering the industry and indicates the extent to which this occurs. Barriers can be related to capital costs, economies of scale, brand equity of incumbents, access to supply or distribution arrangements, government regulations and more.

COMPETITIVE LANDSCAPE
Cost Structure Benchmarks
This section details the average costs for a company operating in this industry as a percentage of total revenue. Key line items of costs can be identified and quantified and, depending on the nature and type of cost item, may indicate a barrier or lack of barrier to new entrants.

OPERATING CONDITIONS
Capital & Labor Intensity
This section provides a guide to the amount of capital used in production or used for providing a service, compared to the amount of labor in the total mix of inputs. This can be a form of barrier to entry for new entrants.

OPERATING CONDITIONS
Regulation & Deregulation
Regulations may prevent new players from entering or impose conditions on entry that constitute a protection of incumbent players, whereas deregulation may open the industry to new entrants. For example, if licenses are required to operate in an industry, they will be noted in this section. Where possible, details regarding the degree of difficulty in obtaining a license are included. Other forms of regulation may include labor practices, health compliance, US Food and Drug Administration approvals, national security and others.

OPERATING CONDITIONS
Industry Assistance
Assistance refers to government and other measures that are designed to improve the performance of the industry or segments of it (e.g. grants and subsidies). These can be in place to foster growth and even survival of fledgling industries or to protect “sunset” industries on their way out.

OPERATING CONDITIONS
Technology & Systems
This section acknowledges the latest technologies and systems available to this industry. Technology refers to machinery and equipment (such as computerization) that enable better and more efficient production. Systems refer to methods of production that also enable better and more efficient production. The ability of new entrants to access technology and systems may determine the level of threat for incumbents.
Dissecting IBISWorld Reports with Porter’s Five Forces

PORTER’S FIVE FORCES

IBISWORLD BREAK DOWN

2. Buying power of customers

PRODUCTS & MARKETS

Major Markets
The key client industries and groups are detailed in this section, with the most important industry groups indicated where possible. Trends in these client groups may have an important impact on the demand for products and services provided by the industry and, hence, may be important to monitor.

PRODUCTS & MARKETS

Demand Determinants
This section lists the key factors that are likely to cause demand to rise or fall. It discusses the forces that influence industry buyers to spend more or less on products in each industry.

COMPETITIVE LANDSCAPE

Basis of Competition
This section describes the key types of competition between firms within the industry as well as competition from substitute products in alternative industries.

Other information on trends in the market can be found in the Industry Performance chapter.

3. Supplier power

PRODUCTS & MARKETS

Supply Chain
This section lists the industry’s key buying and key selling industries. These links can be used to drill down detailed information on this industry’s supply chain.

MAJOR COMPANIES
This chapter includes specific information and data on major company operating in the industry.

COMPETITIVE LANDSCAPE

Cost Structure Benchmarks
The average costs for a company operating in this industry as a percentage of total revenue are detailed in this section.

4. Threat of substitutes

COMPETITIVE LANDSCAPE

Basis of Competition
This section discusses any relative competition threatening the industry, including substitute products, price competition, internal competition and from other industries.

DEFINITION

Similar Industries
This section references industries with similar or substitute products or services.
Dissecting IBISWorld Reports with Porter’s Five Forces

PORTER’S FIVE FORCES

MAJOR COMPANIES
Major players in the industry and their key details are listed in this section. When possible, market share data in relation to the industry is included for each major player.

COMPETITIVE LANDSCAPE
Basis of Competition
The key types of competition between firms within the industry are discussed in this section. It also highlights competition from substitute products in alternative industries.

COMPETITIVE LANDSCAPE
Barriers to Entry
This section outlines factors that can prevent a new company from entering the industry and indicates the extent to which this occurs.

OPERATING CONDITIONS
Capital & Labor Intensity
This section provides a guide to the amount of capital used in production or used for providing a service, compared to the amount of labor in the total mix of inputs.

COMPETITIVE LANDSCAPE
Market Share Concentration
This section indicates how much industry turnover is accounted for by the top four players. Highly concentrated industries have monopolistic attributes, whereas low concentration industries indicate fragmentation of players.

LIFE CYCLE
Depending on which life cycle stage an industry is at, it may face different competitive pressures; during a decline phase, for example, consolidation among players is expected as they compete for an ever-shrinking market while new entrants are unlikely.

INDUSTRY OUTLOOK
As a key analysis section, Industry Outlook outlines expectations for the key industry indicators over the next five years.