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### Michael Porter's Five (and a Half) Forces

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In the early 1990s, as a college senior, I took a required class in Corporate Strategy. I remember the course fondly, more for the professor — an engaging Jesuit who later officiated at my wedding and baptized my children — than for the subject matter. But I liked the ideas we studied, too, which of course included Michael Porter's Five Forces — a set of teachings that's become as crucial to the study of business as Newton's ideas are to physics.

Since joining HBR last month, I've been hearing Porter's name several times a day: around here, his three decades of writings on strategy are considered their own sort of gospel. So I've spent a little time trying to recall what, exactly, I learned about this stuff way back when.

In my Strategy class, I remember copying into my notebook the iconic drawing ([http://www.bing.com/images/search?q=porter%27s+five+forces&form=QBIL&q=n&sk=&sc=1-20#focal=f58064152b36e0bb95d3bc0cb6ae4c38&furl=http%3A%2F%2Fwww.strategy4u.com%2Fassessment\\_tools%2Fporters\\_five\\_forces%2Fporters\\_five\\_forces\\_lg.gif](http://www.bing.com/images/search?q=porter%27s+five+forces&form=QBIL&q=n&sk=&sc=1-20#focal=f58064152b36e0bb95d3bc0cb6ae4c38&furl=http%3A%2F%2Fwww.strategy4u.com%2Fassessment_tools%2Fporters_five_forces%2Fporters_five_forces_lg.gif)) with little arrows representing the different forces that shape a firm's strategy. But when I've tried to recall the Five Forces themselves, I've come up short. I know "Suppliers" is one of them. I remember "barriers to entry." And I'm pretty sure "Government" is another one. But if this were a game show, right about now I'd be phoning a friend.

The role of government as a force in shaping strategy is something I've been thinking about while reading Daniel Okrent's new book, "Last Call: The Rise and Fall of Prohibition," (<http://www.amazon.com/Last-Call-Rise-Fall-Prohibition/dp/0743277023>) published this week by Scribner. Although it's not a business book per se, in its first 100 pages — all I've read so far — it offers a lively chronicle of the rise of an industry: how Americans' taste for liquor gave way to a preference for beer; how early brewers like Adolphus Busch vertically integrated, buying up glass factories and ice plants and subsidizing the creation of thousands of saloons; and how an odd coalition (suffragists, moralists, nativists) worked the levers of politics to outlaw the products of what was then the country's fifth largest industry.

Prohibition is an extreme example of how a governmental decision can impact an industry — one that reinforced my vague recollection that "Government" was one of Porter's five forces. To check that memory, I went back and reread Porter's landmark 1979 HBR article (<http://hbr.org/2008/01/the-five-competitive-forces-that-shape-strategy/ar/1>). At least part of my memory was correct: "Bargaining Power of Suppliers" is one of Porter's Fab Five, and "Threat of New Entrants" is, too. (If this were an exam, I'd argue "barriers to entry" is close enough for partial credit.) Government, though, is definitely not. (Think fast: Can you name the remaining three?)

Porter lists government as a "Factor," not a force, along with subordinate variables like the industry growth rate and complementary products and services. "Government is not best understood as a sixth force because government involvement is neither inherently good nor bad for industry profitability," Porter writes. "The best way to understand the influence of government on competition is to analyze how specific government policies affect the five competitive forces. For instance, patents raise barriers to entry, boosting industry profit potential. Conversely, government policies favoring unions may raise supplier power and diminish profit potential... Government operates at multiple levels and through many different policies, each of which will affect structure in different ways."

I understand Porter's point: the five forces are fundamental, like gravity, whereas government policy is better seen as something transitory, like the prevailing winds. Still, during the decade and a half or so that I've spent covering business, I've been struck by how much time and attention business leaders spend worrying about — and trying to influence — government policy. So much of what passes for political news these days, from industry bailouts to health care reform to new financial services regulation, will have a profound impact on the profit potential of some of America's biggest companies. Twenty-first century regulation may not impact companies as much as Prohibition impacted Anheuser-Busch or the Canadian distillers who provided an (illegal) substitute good. But a lot of CEOs seem to worry about it more than they think about, say, the Threat of Substitute Products.

I'll take Porter's word that Government is a factor, not a sixth force. But these days, it seems a mighty big one.

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