

**PORTER'S 5 FORCES VS.
PESTLE ANALYSIS: WHAT'S
THE DIFFERENCE?**

REASON FOR PORTER'S 5 FORSES ANALYSIS

- When a company's management uses the five forces, it can create ways to take better advantage of a situation of strength, overcome a situation of weakness, and avoid making mistakes that would provide someone else a competitive edge.
- Managers can brainstorm various factors associated with each of the five forces.
- For example, they may examine the number of suppliers, the use of suppliers, the uniqueness of service, the ability to substitute suppliers, and the cost of changing suppliers. This, in turn, can lead to a boost in profits, thereby increasing earnings for a company's investors.

WHAT ARE PORTER'S 5 FORCES?

Porter's 5 Forces is a tool to analyze an organization's competitive environment. The five forces are:

1. Industry competition
2. The potential threat of new entrants
3. Power of suppliers
4. Power of customers
5. Threat of substitutes

PORTER'S 5 FORCES EXAMPLE

- Let's use Porter's 5 Forces to quickly analyze the competitive environment of athletic apparel giant Nike (NKE).
1. **Industry competition (high):** The global athletic apparel market is extremely competitive, with constant market share threats coming from established players like Adidas, Puma, Under Armour, and even Lululemon Athletica.
 2. **New players in the industry (low):** It takes quite a bit of capital and resources to create a popular brand in the athletic apparel space.
 3. **Supplier power (low):** Nike has a large base of suppliers in several overseas countries, including Vietnam, China, Indonesia.

4. Buyer power (medium): Nike has an established premium brand that large wholesale buyers and end-customers are willing to pay up for. That said, it's very easy to switch to different brands and lower-cost alternatives given the amount of competition in the space.

5. The threat of substitutes (low): There really is no substitute for athletic apparel and the industry, as a whole, should continue to grow.

Pestle analysis benefits

- PESTLE analysis allows managers, marketing, and financial experts to examine specific factors (outside of money) when making decisions about the company's services or products.
- So the manager of a company that uses PESTLE analysis may focus on the social aspects of consumer behavior. This may include examining customer demographics, culture, and buying patterns. Or they may choose to look at the environment and how it plays into consumer reach.

Pestle analysis benefits

- Adverse weather conditions, how the customer views sustainability, and even environmental policies at the local or national level can affect the future of the brand.
- Results from PESTLE analysis allow the company to make specific choices when planning the company's future, from how the brand should be presented, to any changes within the structure of the company's organization, to the development of new products.

WHAT IS PESTLE ANALYSIS AND WHAT IS ITS PURPOSE?

- PESTLE analysis is a tool to analyze an organization's business environment. It's primarily used to identify both threats and opportunities due to external influences.

WHAT ARE THE SIX ELEMENTS OF PESTLE ANALYSIS?

- The six elements of PESTLE analysis are:
 1. Political
 2. Economic
 3. Sociological
 4. Technological
 5. Legal
 6. Environmental

PESTLE ANALYSIS EXAMPLE

- Let's take another look at Nike, but this time through the lens of PESTLE:
- **Political:** Nike is domiciled in the U.S., which generally has pro-growth policies. As a global manufacturer, though, Nike is always subject to changes in taxes, manufacturing laws, and trade policies.
- **Economic:** Nike sells well-respected shoes and apparel, so it is less susceptible to economic downturns. That said, it's relatively simple for consumers to switch to lower-end alternatives.
- **Social:** The overall message of living an active and healthy lifestyle continues to grow worldwide, so Nike remains in a good position socially. Nike has also taken an active stance on social justice issues

- **Technological:** Nike has used social media well to connect with customers. And the company has always used manufacturing advancements to its advantage.
- **Legal:** There aren't too many legal issues that impact Nike.
- **Environmental:** Nike's environmental issues largely center around its manufacturing carbon footprint. In 2019, Nike announced its Move to Zero initiative which aims to completely eliminate carbon emissions and waste as a result of its operations.

THANK YOU

