

# Five forces model essay sample



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Porter's Five Forces Model was created to act as a framework for industry analysis and business strategy development. Porter singled out five different forces that impact competitive intensity which portrays an image of the overall attractiveness and profitability of a market. To aid in our evaluation of Nestle and its status in the industry, we will apply Porter's Five Forces Model to the company.

#### Threat of New Entrants

The food processing industry is very large and competitive; it is not uncommon for firms within the industry to do quite well. As a result, many companies enter into the market every year in an attempt to gain a portion of the profitable market. Luckily for Nestle, the company has been around for over a century and boasts a long history of quality products and consumer satisfaction which has allowed the company to obtain a considerable share of the market. As a result, new entrants into the industry must attempt to seize a portion of Nestlé's market share in order to survive. Essentially, Nestle is constantly a target and so the threat of new entrants is moderate.

#### Threat of Substitute Goods

Due to the nature of the industry, Nestle is beset with the threat of substitute goods. From bottled water to lean pockets, there are arrays of similar products that compete directly with Nestle. It is vital for Nestle to continuously find new ways to improve its products as the competition is so fierce. In recent years, Nestle has focused on the health and wellness aspects of its products to maintain its competitive edge in the market.

### Bargaining Power of Suppliers

Nestle prides itself on creating and maintaining positive relationships with its suppliers all over the world. Due to the large purchasing power of Nestle and the fact that the suppliers of agricultural commodities offer a product that is far from unique, Nestle holds more bargaining power than its suppliers. Aside from this, Nestle does prefer to create and preserve long term relationships with its suppliers as this helps to ensure the quality of the raw materials being purchased. In addition, Nestle also offers useful advice to its suppliers on how to perform more efficiently to minimize unnecessary costs.

### Bargaining Power of Customers

Customers have a large amount of bargaining power regarding their consumption of Nestle products. As stated previously, there are close substitutes for Nestle products which allows for the preferences of the customer to be very powerful. Nestle understands the power of the customer and has taken specific steps to meet the needs of its products consumers. Specifically, Nestle is incorporating health and wellness into the creation of its products as society has begun to grown more health conscious.

### Competitive Rivalry within the Industry

Nestle is a powerhouse in the food processing industry but so are Kraft Foods and Groupe Danone. These companies, among others, are in a constant and continuous battle to outperform one another. Regarding advertising alone, these companies spend hundreds of millions of dollars in an attempt to appear more desirable than the other companies. Rivalry is fierce in the food

processing industry and this is a good thing for consumers. As long as these companies continue striving to one up one other, consumers will continue to enjoy ever improving product lines.

When applied to Nestle, Porter's Five Forces Model depicts a competitive but profitable market for the food processing industry. Furthermore, the model places Nestlé in a somewhat comfortable position within the food processing industry, while acknowledging the threats to its market share. Specifically, the model notes a moderate threat of new entrants into the market and a substantial threat of substitute goods. In addition, the model shows that Nestle tends to maintain the upper hand over its suppliers as commodities have exact substitutes in the market. Also according to the model, Customers have a considerable amount of bargaining power, as Nestle must adhere to consumer wants and needs as there are so many close substitutes. For the final force, the model depicts a large amount of rivalry within the food processing industry.