Five Forces Analysis adapted for the not-for-profit environment

The Five Forces Model was developed by Michael Porter to analyze competitive rivalry in a for-profit environment. Here, it has been adapted to include factors unique to the not-for-profit environment (“service provider” and “donor” are substituted for Porter’s terms “suppliers” and “buyers”). It can be used by the not-for-profit organization (NPO) to understand its environment relative to other similar organizations and key stakeholders. It helps the NPO understand the strength of its current position, and the strength of a position it is considering moving into.

The tool can help you analyze the following five forces that determine where leverage and influence lie in a situation.

1) Service Provider Power: This describes how much pressure sub-contractors or partnering organizations can place on your organization or project. A provider without substitutes, for example, has a lot of leverage in this partnership. Providers gain leverage as their services become more critical to your business model, but lose leverage when you have options to substitute another provider. On the other hand, even when there are substitutes it can be costly to change providers in terms of administrative costs, program continuity, and damage to reputation.

2) Donor Power: Donors are like the buyers in a traditional Five Forces model because they are essentially purchasing the social impact your organization produces. If they can get a similar or superior product from someone else, they will. More donors with more resources tip the balance in favor of your project, and vice versa. Factors to consider include the size of the donor pool, whether it is growing or shrinking, whether most are already committed to other projects and providers, whether or not it is costly for them to switch, and their expectations about the operations they will fund.

3) Competitive Rivalry: Competitive rivalry describes the intensity of competition to offer services in a field. Thus, a field with many providers about the same size offering similar services would be highly competitive. Factors to consider include whether identical organization or services exist, and where there might be gaps. Consider also whether donor loyalty and culture might make it costly to get donors to switch to your project.

4) Threat of Substitution: What is the likelihood that a donor will switch to a competitive product or service? If the cost of switching is low, and similar substitutes exist, then this poses a serious threat to the sustainability of your project.

5) Threat of New Entry: The easier it is for new service providers to enter the field, the more competition there will be for funding and room to operate. Barriers to entry, such as donor loyalty to existing causes or high fixed costs can limit the threat of new entrants.
To use the tool, brainstorm the factors in your particular situation that affect each of the five forces and list them on the diagram. Then consider each list and decide whether there is an overall positive, negative or neutral effect on your strategy.

Here is an example analysis:

Next...

1) Think about how each force affects your organization or project
2) Try to determine the strength and direction of each force
3) Assess the strength of your position and ability to create the desired impact and return on investment

Don’t give up if you see negative forces in the way of your goal. By determining the weak areas of your plan you might be able to find ways to strengthen your position and come back with a more sustainable plan.
Analyzing Competitive Forces in a Not-For-Profit Environment

Threat of New Entry: Competitive Rivalry:

Donor Power:

Service Provider Power:

Threat of Substitution:

Porter’s Five Forces Analysis adapted for NPO by PM Carson

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