

Financial Voyage

Michael Porter's Five Forces and Globalization.

Michael Porter's 5 forces determining the nature of competition in an industry are

1. Barriers of entry for new competitors.
2. Threat of substitute products or services.
3. Declining bargaining power of suppliers.
4. Rivalry among existing competitors.
5. Bargaining power of buyers.

In each box here, we assign a "Rising" or "Declining" influence to each of Porter's 5 forces.

We use the 5 forces here illustrate how the process of liberalization or globalization is played out. This map could well have been slotted to our "Key Ideas" map section as a "template" map. You will find that you can rearrange the 5 forces in other configurations to reflect different themes.

This map is best appreciated with our Key Ideas map on asset bubbles, posted to the site on November 7, 2000.

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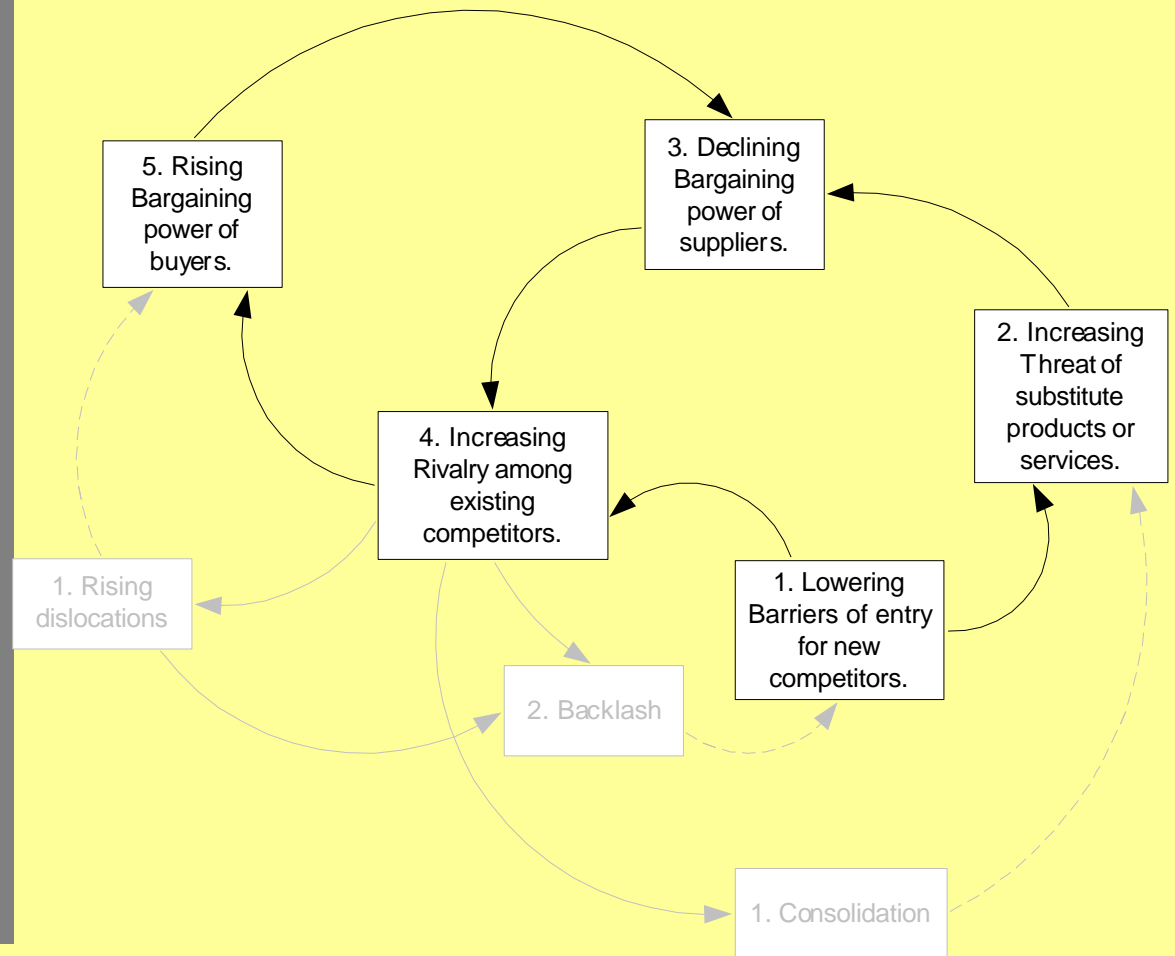
1. To the observant reader of our maps, you will notice that Boxes 1 to 5 arranged this way match our “bubble archetype”.

We are beginning to see early signs of “limits to growth” from the increasing backlash to globalization, although at this time, they may not be strong enough to roll back the trend just yet.

A reinforcing loop connects Box 3 to 5. We experience this as absent inflation due to Box 3, the rising risk and eventually the fact of oversupply in many goods and services due to Box 4, and finally, with the exception of rising energy costs, the consumer is king (box 5).

The “bubble archetype”, a Key Idea map suggests that a bubble is hard to stop, especially in the perception of the people living it. That is why political and business leaders, economists and thought leaders praised globalization as unstoppable heralding a new age of growth and prosperity.

The reinforcing loop is underpinned by Box 1 feeding into Box 4, and Box 2 feeding into Box 3. The key feature of the “bubble archetype” is that at least two boxes in a reinforcing loop are externally promoted from the “outside”.



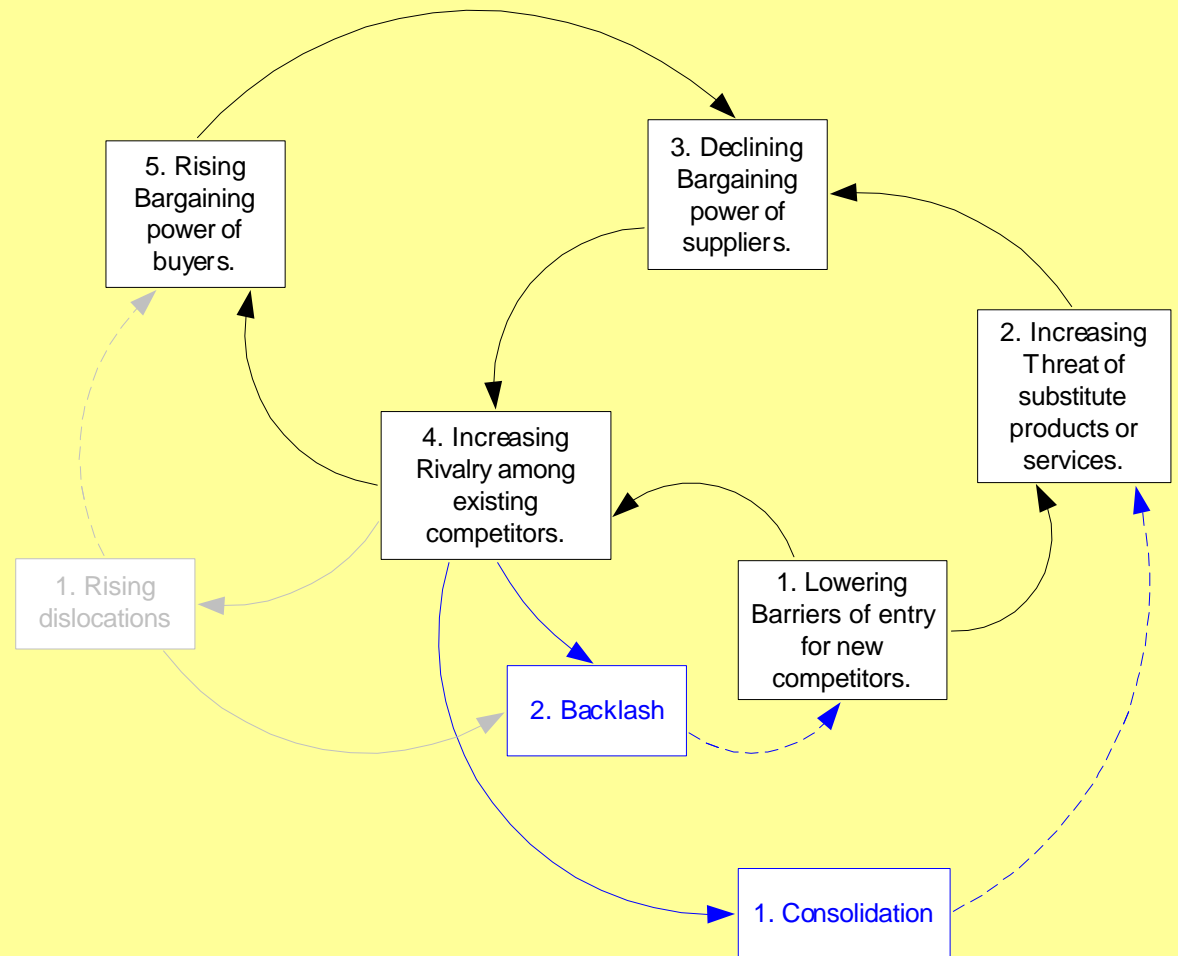
2. The bubble in our mapping technique is a special case of the reinforcing loop, whose key characteristic is its strength and persistence.

But all reinforcing loops and bubbles eventually run into “limits of growth” situations. The most visible one was the picketing against the WTO meeting in Seattle (box 2), and afterward whenever there is an international meeting on themes around Liberalization.

More quietly and happening more frequently is Box 4 giving rise to Box 1, which in turn demotes Box 2.

We had chosen to leave it out here, but Box 1 and Box 2 need to be fed too or the blue colored Box 2 and Box 1 will eventually overcome it.

The strategy on what to do so is simple. Either you act on the two blue boxes directly or you increase the fuel to Box 1 and Box 2.



3. Assuming that you could overcome blue Box 1 and Box 2. At the same time, the black Box 1 and Box 2 continue to be promoted, then it is just a matter of time excess accumulates, leading to contradictions that will threaten the present relationships among the five black boxes. Signs of dislocations will appear preventing easy growth (box 1).

As globalization/liberalization does not proceed at the same speed on every industry's front, the current tech led slow down in the economy is an example of **Box 1**. The US Fed is desperately trying to defend the rest of the economy from being infected, but like what we had suggested several times, it can at best only hope to buy time for the economy to recover on its own.

