

Porter five forces of reebok essay



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The athletic shoe industry is slowly becoming a global oligopoly. There are many barriers to entry preventing new entrants from capturing significant market share. Large athletic shoe manufacturers enjoy economies of scale that create cost advantages over any new rival. Today's athletic shoes are highly technical. An extremely large capital investment is required for new firms to open athletic shoe factories and conduct research and design to create a popular athletic shoe. Recently, Nike has incorporated forward vertical integration into their corporate level strategy.

Nike opened discount factory outlet stores in rural areas and retail stores in urban shopping meccas. Monolithic athletic manufacturing companies utilize economies of scale by spending millions on product endorsements and advertisements by spreading the high cost over their entire yearly sales. The aggressive marketing campaigns turn their products into household names making it arduous for new firms to compete. Athletic shoe manufacturers greatly attempt to differentiate their products from all shoe manufacturers.

For example, Nike aggressively markets their shoes with a visible air chamber in the sole. Reebok pushes their " Pump" feature to increase product differentiation. The capital requirements can be a high entry barrier to a new firm to the industry. However, an existing dress shoe manufacturer may enter the athletic shoe industry simply by re-tooling their manufacturing plant. Access to athletic shoe distribution channels is a moderate barrier to entry. This all depends on the status of the entering firm.

If they are a startup firm, it is extremely difficult to get shelf space at major shoe retailers. If the firm is currently in the dress shoe industry, and is

entering the athletic shoe industry, they may use their existing connections to easily access athletic shoe distribution channels. Switching costs are very low for the athletic shoe industry. Shoes are relatively inexpensive personal goods that are frequently replaced. Cost disadvantages independent of scale are moderate. Many athletic shoe customers are brand loyal and are reluctant to try a new athletic shoe.

Additionally, previous aggressive marketing campaigns have increased not only brand and individual product name recognition. Government policy is a low entry barrier, as all manufacturers in every industry are subject to factory safety laws. Threat of Retaliation The threat of retaliation is high in the athletic shoe industry. For example, if a small new competitor attempts to gain market share by dumping their products, the much larger computer firms are more capable of absorbing losses associated with driving the new competitor out of business.

The threat of new entrants to the profit potential of athletic shoe manufacturers is minimized through high entry barriers, but incumbent manufacturers must stay aware of other shoe manufactures attempting to enter the athletic shoe industry. Rivalry Among Existing Firms In the athletic shoe industry, corporations are mutually dependent. A competitive move by one firm directly effects competitors, forcing retaliation or counterefforts. For example, Reebok's expansion of the women's walking shoe, inspired other firms to follow. The number of competitors is stable, partially due to high entry barriers.

This adds to the rivalry among existing firms. Manufacturers watch each other carefully and make appropriate countermoves to match a competitor's move. The rate of industry growth is stable, but the quest for global market share is eminent. Nike and Reebok are not as dominant globally, compared to the U. S. This increases global rivalry. Product characteristics are related to market share. Name recognition alone sells athletic shoes. The larger the market share, the greater advertising capabilities and hence increased name recognition.

Athletic shoe manufacturers relentlessly try to minimize fixed costs. Many shoe manufacturers reduce their costs by assembling athletic shoes abroad where labor is less expensive and tax laws are minimal. This increases rivalry, when manufacturing savings pass to the consumer. Capacity has minimal impact on rivalry, because most firms have means to manufacture the demanded amount of athletic shoes. This ability to meet demand reduces market because most firms overproduce and drive down the selling price.

Low exit barriers and diversity among competitors has minimal impact on profit potential. If the athletic shoe industry becomes too unprofitable, firms could switch to other shoe markets. Additionally, diversity among firms is small because every firm follows one another. The rivalry among existing firms is high where weak firms are easily acquired by fierce competitors. This may have a high impact on profit potential. Bargaining Power of Buyers Woolworth's shoe chains account for 23% of the U. S. athletic shoe sales. Their dominant retail market share gives them a large amount of power.

Furthermore, Woolworth's dominant market position contributes to concentration of the buyers industry. Smaller firms have difficulty competing with mighty Woolworth's chains and other large shoe retailers. Woolworth's chains pose a moderate to low threat of backward integration. In the event of backward integration, Woolworth's would be subject to some of the high barriers to entry. Plus, they would have to continue to sell their competitors products because retail shoe sales are the core competency of their corporation. Buyers have high switching costs in regards to opportunity cost.

If an athletic shoe retailer decided to drop one of the popular athletic shoe brands, their sales would fall due to high consumer brand loyalty. Most buyers have a medium profit margin so price sensitivity of buyers is moderate. In the athletic shoe industry, price increases pass to the consumers. The overall impact from buyer's bargaining power to profit potential is moderate. Bargaining Power of Suppliers Athletic shoes are manufactured primarily from raw materials including rubber, leather and nylon. These materials could be classified as commodities, where the manufacturing process adds to their value.

For this reason, the suppliers have limited bargaining power, and little impact on profit potential. Threat of Substitute Products and Services Athletic shoes are designed to improve comfort and personal safety during periods of increased movement. Substitutes for athletic shoes are using other forms of shoes, or going barefoot. A large population of athletic shoe consumers wear athletic shoes strictly because they are comfortable. Comfortable dress shoes or sandals are equally interchangeable with minimal switching costs. If the athletic shoe is used for sports, then there are relatively few substitutes.

Given these reasons, the threat of substitute products is moderate and the impact to profit potential is moderate to high. Relative Power of Other Stakeholders The U. S. government has low power over the athletic shoe industry. Many shoe manufacturers have plants outside the United States, where U. S. laws are not applicable. To minimize the relative power of other stakeholders corporations strategically locate their plants throughout the world. Forces driven by market demand are the only forces that may significantly affect profit potential.

Therefore, the relative power of other stakeholders ability to impact profit potential is moderate to low. Overall Assessment • The threat of new entrants to the profit potential of athletic shoe manufacturers is minimized through high entry barriers, but incumbent manufacturers must stay aware of other shoe manufactures attempting to enter the athletic shoe industry. The rivalry among existing firms is high where tender firms are easily acquired by fierce competitors. This may have a high impact on profit potential.

The overall impact from buyer's bargaining power to profit potential is moderate. Suppliers have limited bargaining power, and little impact on profit potential. The threat of substitute products is moderate and the impact to profit potential is moderate to high. • The relative power of other stakeholders ability to impact profit potential is moderate to low. • The overall profitability on the industry is moderate to low level and could increase with future consolidation. This is because of high rivalry, many substitute products and a little buyers bargaining power.