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Lithuanian Footwear Manufacturing Industry Analysis According to Porter‘ s Five Forces Introduction For all times footwear has been a basic necessity and just recently it has become a matter of fashion and prestige, thus making huge changes in footwear industry: it expanded and became well differentiated. Therefore, in order to perform and compete effectively, companies have to analyze their externalenvironment. This paper will concentrate on Porter’s five forces that shape competition in Lithuanian footwearmanufacturingindustry. Rivalry A decade ago there were much more footwear manufacturers in Lithuania.

However, right after Lithuania joined the European Union, footwear imports from China to the European Union increased eight times. It caused huge profit losses for Lithuania’s footwear manufacturers and many of them withdrew from the market. Today there are two main footwear manufacturers UAB “ Sabalin” and UAB “ Lituanica”, a few smaller manufacturers such as UAB “ Paliutis” and UAB “ Evenida” and there are also some individual businesses which do not mass-produce but manufacture shoes just for individual orders. As we can see there are not many Lithuanian companies but their competition creates the rivalry a positive sum.

The largest companies UAB “ Sabalin” and UAB “ Lituanica” produce leather shoes for the wholefamilyand export most of their production to other European countries, especially to Great Britain, Latvia and Finland (http://www. lituanica. info/m93-1. html, http://www. visalietuva. lt/imones/info/sabalin-uab). Smaller manufacturers concentrate on specific footwear production such as boots and working shoes or take orders from Lithuania’s companies and produce big quantities of specific safety shoes or shoes which are part of employees’ uniform.

Footwear manufacturing usually is not their only scope so when they have hard times in shoes manufacturing, they concentrate on other fields. For example UAB “ Paliutis” produces not only boots but also other rubber and plastic production (http://avalyne. paliutis. lt/index. php), UAB “ Arnesima” produces safety working shoes and, in addition, they offer safety gloves, waterproof clothes and etc (http://www. arnesima. lt/). Individual businesses do not have a great demand because Lithuanians prefer custom boots just for ery important occasions, for example, weddings or when the foot is not standard and they cannot find suitable shoes in shoe stores. However, the main competitors for footwear manufacturers in Lithuania are Chinese footwear producers. According to UAB “ Lituanica” director D. Keltuva, just the leather they use for a pair of shoes costs the same as the finished Chinese pair of shoes. To become more competitive, Lithuanian manufacturers cut their prices; however, it was impossible to become equivalent competitors because Chinese labor force was far and away cheaper.

Besides, young to middle-age Lithuanians are concerned about fashion and prestige so Lithuanian manufacturers are unable to compete with designers’ shoes or well known brands. UAB “ Sabalin” director Regina Arcisauskaite claims that her manufactory orients to segments from middle to high prices and to middle class people; however, this company does not aim for luxurious or fashionable products’ segment. New entrants Recently not a single bigger footwear manufacturing business has been started. The main reason is the economic recession, which has caused the decrease in footwear sales.

Another reason is still huge competition from China. However, today shoe shops “ Lietuviska avalyne” and “ Dolita” report that sales in Lithuania are constantly increasing and people, especially elder ones, prefer more expensive, but quality Lithuanian shoes from natural leather and fur. Besides, Lithuanians have turned back to small boutique shops and prefer shopping in places which offer unique products and comfortable surroundings. This probably will cause an increase in number of small shops, run by small businesses owners or new entrants who will be willing to fill this niche.

Lithuania’s government policy is favorable to new entrants and offers a lot of ways to start a new company. The main requirements for new business entrants are quite high government taxes and the initial capital in some cases. However, new entrants face one huge barrier to entry. Most Lithuanians do not trust Lithuanian production; they do not think about the quality and price and choose fashionable foreign footwear. Moreover, incumbents have already survived through Chinese invasion and recession so they have a lot of experience.

As soon as the newcomers face the first difficulties they might get lost and go bankrupt just like many other Lithuanian footwear manufacturers did five years ago. This might discourage them from entering this market. One more important barrier is that in order to open a new footwear manufactory a huge amount of initial capital is needed. New entrants need new premises, inventories and qualified employees. This may also deter a lot of newcomers from entering this market. Substitutes Shoe market in Lithuania is tremendous.

You can see shoe shops everywhere and shoes in various styles, colors, designs and prices are brought there from a lot of different countries. There are a lot of other shoe stores which offer quality footwear. These shops gain advantage because customers are exposed to a great choice, meanwhile people can merely see Lithuanian shoe shops in shopping centers or in the streets. Moreover, Lithuania’s youth tends to wear mainly sports shoes and frequently replace them with new ones. They wear them both in summer and in winter, so they are not looking for quality and long lasting shoes which are rather expensive.

In this age of new technologies another substitute is available for everyone – online shops or eBay. Lithuanians find it cheaper to order something from overseas than to buy it in local shops. This phenomenon is also applicable to footwear. Most of the online shops have return policies so people are not afraid to buy and, if it is necessary, to change the item. Finally, parents tend to buy footwear for their children in second-hand shops. They see no need to spend huge amounts on shoes when their child’s feet are constantly growing. The same trend is seen among elder people.

Pensions in Lithuania are relatively low so the pensioners cannot afford new quality shoes. Therefore, they go to second-hand shops where they can find almost new and really quality foreign footwear; they even can find branded shoes in very good condition. Since the price is still a very important factor in choosing shoes, nowadays most Lithuanians try to find substitutes which could offer suitable quality and price ratio. Power of suppliers Today Lithuanian footwear manufacturers buy raw materials mainly from Lithuanian companies, for example, leather processing companies AB “ Siauliu Stumbras” and UAB “ Naturali oda. There is a great variety of available leather and other raw material suppliers in Europe so footwear manufacturers are not dramatically dependent on their suppliers and can easily switch their suppliers since switching costs are low. However, leather processing companies depend on economic situation and cattle ranches. The manager of leather processing company “ TDL Oda” Vidmantas Simkus explains that when economic crisis occurred, the demand for meat decreased thus the number of grown cattle also decreased.

It resulted in lack of raw leather material last year and was the reason for double increase in price. Respectively, Lithuanian footwear manufacturers had to buy more expensive raw materials, their product prices increased and they became less competitive in shoes market. Besides, footwear manufacturers are not the only ones who use leather for their production. Coats, gloves, hats, handbags and some bijouterie are made from leather so leather processing companies have some power to choose whom to sell their production to and in this way to raise the prices. Power of buyers

Footwear is necessary for every person so they cannot avoid buying shoes. However, they can choose where and what kind of shoes to buy. Generally, in footwear industry buyers do not have a lot of power, but in Lithuania their power is significant. Since there is great variety of imported shoes and just a few Lithuanian footwear shops, the buyers’ choices determine which shoe shops (and thus which manufacturers) will survive. There are very few shops in Lithuania which sell both foreign and Lithuanian footwear; Lithuanian footwear is sold mostly in special stores.

Since Lithuanians do not trust Lithuanian production, their preference might cause bankruptcy for some shops. It would mean that Lithuanian footwear would be sold just outside the country. Individual businesses owners are greatly dependent on the buyers because they are their main customers and if they are not willing to pay for original custom shoes, these businesses are sure to face a lot of difficulties. On the other hand, Lithuanian footwear in export countries has a lot of loyal customers who recognize products’ quality and reasonable price.

UAB “ Lituanica” director Kestuts Deltuva says that their sales abroad are constantly increasing and they have a lot of new orders and now they are having a very busy season. Conclusion All things considered, Lithuanian footwear manufacturing industry is full of opportunities. Rivalry among Lithuanian footwear producers is rather weak. Since they do not intensively compete in Lithuania’s shoes market, it creates some opportunities for new entrants. This industry is open for new entrants who should consider different strategic plans and try to meet the demand for both quality and fashionable footwear in Lithuania.

The main problem that Lithuanian footwear manufacturers face is a great variety of substitutes: shoes of different brands, styles and origin are easily accessible, and also different places and ways of acquisition are available. Suppliers do not have significant power; however, buyers are the main force which determines which companies will survive in Lithuanian footwear manufacturing industry. References June 27, 2005. Avalynes gamintojai siekia ES apsaugos. Retrieved from http://www. zebra. lt/lt/naujienos/verslas/avalynes-gamintojai-siekia-es-apsaugos-72238. html June 2010.

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