Competition in the sportswear industry

This report is about a competitive analysis watch based on competition in the sportswear industry, dominated by Nike Inc., followed by Adidas and Puma. The article with the title, Competition comes to a Head for World Cup Sponsors was published on The New York Times on 6th June 2010. This report discuss about the competitive strategies adopted by Nike, as the market leader. Porter's five forces of competition framework have been used to analyze the competitive advantage Nike has over its rivals. The objective is to understand the aggressive level of competition within the industry and also how firms try to dominate the market, through cost cutting and innovation.

Company Background

Nike Inc. was founded in 1962 by Bill Bowerman and Phil Knight as a partnership under the name, Blue Ribbon Sports. When Nike co-founder Bill Bowerman made this observation many years ago, he was defining how he viewed the endless possibilities for human potential in sports. He set the tone and direction for a young company created in 1972, called Nike, and today those same words inspire a new generation of Nike employees. Nike's goal is to carry on Bill's legacy of innovative thinking, whether to develop products that help athletes of every level of ability reach their potential, or to create business opportunities that set Nike apart from the competition and provide value for our shareholders. Along the way, Nike has established a strong Brand Portfolio with several wholly-owned subsidiaries including Cole Haan, Converse Inc., Hurley International LLC, NIKE Golf, and Umbro Ltd.

The mission of Nike is: ‘ to bring inspiration and innovation to every athlete* in the world’.

Nike maintains traditional and non-traditional distribution channels in more than 160 countries targeting its primary market regions: United States, Europe, Asia Pacific, and the Americas (not including the United States). They utilize over 20, 000 retailers, Nike factory stores, Nike stores, Nike Towns, Cole Haan stores, and internet-based Web sites to sell their sports and leisure products. Nike Inc. attains their position through quality production, innovative products, and aggressive marketing.

Nike acquired Umbro in 2007. This acquisition indeed became the first decisive marketing goal of World Cup 2010. Nike has 10 World Cup contenders including Brazil, Portugal, Netherlands, Australia, Slovenia, New Zealand, U. S. A, Korea Republic, Serbia, and the deal with England and Umbro, which Nike maintains as a separate brand. The England and Umbro deal is the most Lucrative in international soccer, valued ‘ 34 million ($ 40. 7 million) a year according to Sport+Markt, a research firm. This deal was a new determination for Nike to challenge Adidas, the German soccer apparel powerhouse, on its European home ground. Nike’s continuing relationship with Brazil is worth ‘ 22 million a year.

Competitor Analysis

Adidas and Reebok breathing down the company’s neck, the heart of the Adidas product line is athletic shoes, but the company’s iconic three-stripe logo appears on apparel and other jock accessories. As the No. 2 maker of sporting goods worldwide behind Nike, Adidas has inked deals with football and basketball athletes, as well as the New York Yankees, and it serves golfers through its Taylor Made-Adidas Golf. The company operates some 2, 200 retail locations under the Adidas and Reebok banners. Adidas, which boasts the official match ball (named “ Jabulani”) for the 2010 FIFA World Cup, expanded its business and breadth when it bought Reebok for some $3. 8 billion.

Nike’s rival PUMA is another leading sport lifestyle company that designs and develops footwear, apparel and accessories. PUMA starts in Sport and ends in Fashion. In soccer, PUMA is the official supplier to 7 world cup teams including defending world champion Italy, Uruguay, Switzerland, Ghana, Algeria, Cote d’Ivoire and Cameroon. PUMA Vision states that, ‘ we are committed to working in ways that contribute to the world by supporting Creativity, Safe Sustainability and Peace, and by staying true to the values of being Fair, Honest, Positive and Creative in decisions made and actions taken’.

PORTER’S FIVE FORCES

1. Barriers to Entry

The threat of new entrants to the profit potential of sports accessory and athletic shoe manufacturers is minimized through high entry barriers. Due to large scale production, high cost on research and development and extremely large capital investment on innovation, factories and stores has made Nike able to control its cost and retain performance advantage over emerging competitors.

2. Bargaining Power of customers

Relative to the number of firms in the industry there are a large number of buyers in the market with high bargaining power. Therefore in order to increase sales and market share, firms need to continuously market their product and differentiate their brands against competitors. The recent emergence of e-commerce and online shopping has helped enhanced the accessibility and intimacy among consumers. For example, ‘ NikeiD’ allows customers customize and design their own footwear by permitting customers to specify the desired colours and options to personalize the footwear with their name. Brand identity plays a critical role in the buying behaviours, as it offers customers loyalty and trust.

3. Bargaining Power of Suppliers

Abundant numbers of input suppliers are available in the sportswear industry. There is little differentiation among the suppliers which makes the supplier’s bargaining power low or non -existence. Input items such as Leather, rubber, cotton and plastic are available in large quantities. Nike has a definitive advantage and power over these suppliers when they become dependent on these firms as their means to survive. Nike have standardized their input procedures pertaining to the materials used, their labour force, supplies, services and logistics. Due to global networks of cheap labour on various continents, firms are able to switch between supplies quickly and easily.

4. Threats of substitutes

Due to little alternatives to switch between, within the sportswear and athletics footwear industry, buyer's propensity to substitute is low. For example: Nike shoes are designed to improve comfort and personal safety during periods of increased movements. The possible substitutes for footwear could be boots, sandals, bear feet or dress shoes, which however cannot be replaced for sporting purposes or for athletics. Hence, there are no real substitutes.

5. Competitive Rivalry within the industry

There is countless number of competitors in the global arena for Nike. However not all companies have the power to compete with Nike. But few major competitors such as Adidas and Reebok, Puma, Joma, Legea and Brooks exist.

These companies signed up in the World Cup arena are more evenly matched than ever. With 32 teams participating in the world cup, 12 teams including Argentina, France, Germany and the host nation South Africa ' wore Adidas on them, and Adidas was the official sponsor of the world cup. According to Hartmut Zastrow, executive director of Sport+Markt ' Adidas is still slightly ahead of Nike, on awareness and they have defended themselves well, but Nike is pushing aggressively'.

The fat checks from Nike and Adidas have not entirely priced rivals out of the market. With Nike and Adidas playing the equivalent of a possession game, the third-biggest soccer sponsor, Puma, has exploited unexpected openings in its rivals' defenses ' an opportunistic strategy modeled on the playing style of Italy, Puma's biggest sponsorship. Puma is spending an estimated

’30 million this year to sponsor teams in the 2010 World Cup, compared with ‘ 104 million for Nike and Umbro together and ’85 million for

Puma was also forward-looking in its recognition of the marketing potential of aligning itself with African national teams, long before South Africa was chosen, in 2004, as the first World Cup host on the continent. In 1997, Puma signed up Cameroon, and it has strengthened its ties to Africa since then.

Equipment manufacturers’ logos are the only branding allowed on World Cup soccer jerseys, in contrast with professional club soccer shirts, which generally also include another prominent sponsor, like a gambling, electronics or car brand. That means even lesser known labels can stand out.

Joma, a small Spanish provider of athletic gear, has high hopes for its sponsorship of Honduras. The company expects its sales to rise 40 percent in that country this year and 15 percent in the United States, which has a large Honduran community, a spokeswoman said. Brooks, a U. S. maker of running shoes is supporting Chile. Legea, an Italian provider of sports equipment had signed an agreement to supply uniforms to the North Korean team, which is in the World Cup for the first time since 1966.

Self-Evaluation:

Nike has planted itself firmly on the global business arena and appears to be a role model for other sportswear rivals. They have proved to be innovative, smart, environmentally friendly, and consistent with their product effectiveness and differentiation. For the company to continuously grow and sustain its competitive advantage, it is essential to invest on innovation and new products development that creates a need for the consumers. Nike appears to be a stylish, comfortable, and a reliable giant supplier with varieties of product line. The most informative part of this assignment was learning about capital investment firm make in order to dominate the market. There is also evidence of Hypercompetiton or rather cut throat competition within the industry amongst the major market challengers. Nike’s attempt to snatch Germany away from Adidas, a German brand and the lucrative investments on acquisitions and sponsorship are evidence of desperate challenge for sustaining its dominance in the market.

Conclusion:

From equipping athletes with the finest sports equipment in the world to continuously improving their financial performance, Nike dominates its competitors. Despite a changing marketplace for athletic footwear, Nike continues to expand its product lines and marketing reach to become a more powerful global brand. Due to the product differentiation, brand identity has an immediate competitive advantage.

Aggressive promotions and advertisements also contribute to the success of Nike’s well establishment in the industry. Nike has signed France to a seven-year deal and it will pay the country’s soccer federation more than ’40 million a year to maintain hard grounds on its position for the next tournament, in 2014 in Brazil. The agreement will leapfrog France past England, making its shirts the most lavishly sponsored uniforms in international soccer.