

Differentiating between market structures essay sample

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Introduction

The concept of market structures and competitive strategies are important when attempting to compete in any market. Understanding what market structure your product falls under can help companies develop better competitive strategies and identify potential for loss and gains. The athletic footwear industry in the United States is highly profitable and continuously growing. In this paper I will identify market structure of the athletic footwear industry, the major retailers, and competitive strategies that can be used to maximize profits. History

The Athletic shoe industry had its start in 1892 when U. S Rubber company invented Keds and by 1917 they were being mass produced. Over the years the athletic shoe industry in the United States has evolved from crude shoes with rubber soles to a multibillion dollar industry promoted by Athletes, celebrities, and many other organizations. Athletic shoes commonly referred to as sneakers are no longer just worn during athletic activities. Sneakers have become fashion statements with countless designs and colors. Sneakers are now collectors' items that cause thousands of Americans to patiently wait in line for their favorite sneaker to arrive. In 1984 Michael Jordan signed a contract with Nike to wear Air Jordans. Even after years of retirement, Air Jordans are still the most famous sneakers ever made. This was a turning point for Nike which until this day holds the largest percentage of the athletic shoe market in the United States. Market Structure

Perfect competition describes several small firms competing with one another, many products, many buyers and sellers, and many substitutes.

Prices are determined by supply and demand and the producer has no

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leverage. In a monopoly there is only one producer or seller for a product. Competition to monopolies may be limited to high prices or copyrights. In the oligopoly market structure only a few firms make up the industry and have control of the overall price. Monopolistic competition is an imperfect competition where there are many producers and consumers. The products in this scenario are not perfect substitutes and are differentiated by branding. (Non-price competition). Market Structure For Nike

The athletic shoe industry in the United States falls under the oligopoly market structure. In the oligopoly market structure only a few firms make up the industry and have control of the overall price and the reactions of the dominating companies are interrelated. As of 2014 the total size of the athletic shoe industry in the United States was 53.7 billion dollars with Nike contributing 82.8% of the sales. Nike has the largest market share at 47.1% followed by Adidas at 35.6%, Under Armour at 3.4%, Wolverine World Wide at 3.1% and Deckers at 2.6%. Together these companies account for 91.8% of the athletic shoe industry in the United States. Effectively this falls under the oligopoly category of a very few sellers dominate the industry. Due to the low cost of raw material the athletic shoe industry has a high gross margin of about 45%.. Working With Other Market Structures

Nike may work in conjunction with other industries that have a different market structure. For example as stated before Nike, Adidas, and Under Armour fall under the oligopoly market structure. Nike has monopolized contracts with several professional athletes. In return the popularity of these athletes allows Nike to profit and remain the only company that produces

certain sneakers such as the Air-Jordan. The Nike brand already exist within a monopolistic market. Currently consumers can walk into any store and have hundreds of brands of sneakers to choose from. Nike relies on its brand's name to continue selling more than other companies. Since Nike has become so well-known and sponsored it's sells are not altered by similar products. Competitive Strategies

Competitive strategies help companies achieve an advantage in the market. Using the correct competitive strategy or combination of strategies can help a company gain a very important edge over its business rival. The three main competitive strategies are cost leadership, differentiation, and price strategy. Cost leadership focuses on acquiring raw material of the highest quality at the lowest price. In return this company can lower production cost with the goal of being the company with the lowest production cost in the industry. Differentiation strategies allow companies to make their products stand out from the others. Differentiation can be actual or perceived. Actual differentiation occurs when the company creates products that are not available elsewhere. Perceived differentiation takes a lot of marketing and advertisement to convince the consumer that this company's product is superior.

Price strategy includes a variety of strategies that cause a particular product to be marketed at the lowest price possible. Price strategy includes skimming where companies set a high initial price only to turn around and lower it. Bundle pricing occurs when several products are offered for one price. Promotional pricing allows other incentives to buy such as buy one get

one half off. Using the pricing strategies causes many consumers to actually purchase more believing that they are receiving a “deal” while the company is still profiting. Competitive strategies are always used by companies and are often used together. Companies that understand how to combine competitive strategies fare much better than their competitors. Competitive Strategies of Choice for Nike

To maximize profits over the long run I believe that Nike should use the competitive strategies of cost leadership and differentiation. I believe that as long as Nike continues to acquire cheap raw materials they will continue to make high profits. The raw materials required to create a sneaker that cost hundreds of dollars are extremely low. If the raw materials continue to remain of a decent quality Nike will continue to thrive. I also believe that differentiation is the trademark of Nike. Nike sneakers are a household name sponsored and promoted by many different entities. As long as Nike continues to invest in advertisements that make their product appalling and attractive they will continue to be in demand. Recommendations

In order for the Nike athletic shoes to remain competitive I recommend that they invest in different types of sneakers. For example most of Nikes sales come from running and basketball sneakers. Adidas continues to out sell Nike in walking shoes. Understanding that the Nike brand is highly invested in athletic shoes I believe that they should begin to invest more money into marketing towards less mainstream sports. For example the Nike Janoski sneaker named after famous skateboarder Stefan Janoski has proved extremely popular and at an average of \$85 dollars a pair very profitable.

Since this shoe does not resemble a typical sneaker it can be worn for occasions where traditional sneakers may not be considered appropriate. I believe that if Nike continues to invest in these types of shoes it may eventually tap into different markets that have a potential for large returns.

I believe that Nike can be successful in this new venture if they invest slowly instead of aggressively. Since this would be a new market, there should be a test period that shows which demographics to target and how long it would take for the product to become mainstream. For example Air-Jordans original target was a demographic interested in basketball. Today Jordans have become so mainstream that they are worn by people that have no interest or knowledge of basketball. Nike can use the same campaign to branch out to different sports and demographics. My recommendations are based on Nike's experience in the athletic shoe market. I would not make these recommendations to a company that is not so well established, but I believe that Nike has the ability to sell anything they stamp their brand on. This once again proves the power that the competitive strategy of differentiation has on the market. Conclusion

In conclusion the concept of marketing strategies and marketing structures help companies like Nike to remain competitive in highly competitive market. It takes a lot of research and knowledge in these concepts to be able to market your product at a high price and still out-sell your competition. Nike has mastered the art of marketing strategies and structures and will remain competitive as long as they remain current. In order to remain current Nike must continue to invest in advertisements and in finding new

ways to obtain cheap raw material. Nike must also continue to branch out to different demographics that hold the key to popularity with the new generation.