

Industry analysis paper

Business



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Athletic Footwear Industry Analysis When you think of athletic footwear what are your first thoughts? Nike? Under armor? Skechers? K-Swiss? All these companies have a common type of product/category called athletic footwear that they all sell and make a huge profit from. Throughout our analysis we will focus primarily on the United States Market industry compared to the International industry in athletic footwear/ running shoes. Within the United States there is a wide variety of different types of shoes but one of the most trend setting shoes that provide the most income are athletic footwear/ running shoes.

The United States has over 10 billion dollars of revenue of profit that the athletic footwear industry provides and is one of the largest markets for athletic apparel and footwear in the world, which will provide a sufficient analysis for us to determine (Athletic Shoe Stores in the US: Market Research Report, IBISWorld 1999). This will allow us to focus on a market that we are familiar with and will penetrate the industry down to make a more accurate analysis on the industry athletic footwear/ running shoes. We will be analyzing women and men's retail running shoes through their industry activities.

This will declare an accurate competition level between different competitors throughout the industry's products. Athletic running footwear has had an extreme demand of athletic apparel due to increasing number of athletes and the growing health awareness among the people of the US (Ken Research in Footwear, Market Research 2013). There is more of a demand for women's running shoes compared to men with the increase of interest to

jogging/running for the women population (Ken Research in Footwear, Market Research 2013).

We will be analyzing all aspects of the United States industry within the men and women's attire of running footwear.

Some of the trends in the general environment of the athletic footwear industry are the economic climate, healthy and active lifestyle, and fashion trends. In every retail industry the current state of the economy can greatly affect the environment. If the economy is in a depression that effects the shopping patterns of their consumers and as a result becomes a threat to the industry. The athletic footwear industry took a hit when the recession decelerated the US economy in 2008 (Smith).

Many American's were struggling financial which led to the athletic footwear industry to take a hit in their profit margins as well.

Companies had to discount their products to keep a high volume of sales (Smith). The economic climate also plays a role in the rising population and disposable income levels of consumers. In 2010, consumers felt more confident financially by having more disposable income and began purchasing items like athletic footwear more frequently (Smith). The industry was able to gain leverage to increase prices and focus the consumer on quality and not price (Smith). The increased level of income allows consumers to afford a premium-priced shoe which is driving the industry's profit margins today (Smith).

Both income levels and general population are continuously growing which becomes an opportunity for the industry to capture as much of the market as

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possible. Another trend that is affecting the industry is the healthy and active lifestyle. Obesity is at an all-time high and the lifestyle of healthy living is becoming a major part of our culture (Smith). This trend has encouraged consumers to exercise more and therefore need athletic shoes (Smith). This is a major opportunity for the industry because their product is directly related to the culture change we are headed in.

Finally fashion trends have become a big role in the footwear industry.

The market is in demand for innovative designs, styles, and celebrity endorsements. Some consumers in the industry are looking for footwear that is specifically made to help them perform better while others look for shoes as a fashion trend. The current trend of light weight footwear is attractive to runners because it helps them perform better. The industry is currently thriving on profit from running shoes (Townsend). And in 2010 sales surged when the trend of light weight shoes with styles of neon hues hit the market (Townsend).

Consumers are now wearing those bright colored shoes as a fashion trend whether it be on the track or on the city sidewalks (Adams). They are not afraid to pay up for shoes that are comfortable and trendy (Townsend). The industry also uses celebrities in marketing their products to reach consumers. Athletes like Michael Jordan and Lace Armstrong contributed to the success of athletic shoe companies. Many consumers look up to these athletes for motivation and in return will buy shoes because they are wearing the same style or brand of shoe.

These trends are an opportunity for the industry because it allows companies to fill the need of consumers and in return they become profitable.

The first threat identified by the five forces framework is the threat of new entrants. New entrants are firms that have either recently started operating in an industry or that threaten to begin operations in an industry soon. The athletic footwear industry is a very difficult industry to come into. This is because of the market in which the footwear industry operates, is highly saturated.

This saturated market combined with the economies of scale in production, research and development, and marketing make a company have to operate in large scale to be cost effective in the industry (Athletic Footwear: Industry Analysis). Also, the main companies in this industry have major cost advantages independent of scale.

Their management know-how that they have developed over the years united with their learning curve allows them to dominate this industry (Athletic Footwear: Industry Analysis). The second threat is the threat of rivalry, which is the intensity of competition among a firm's direct competitors, is high for this industry.

The main factor of the competitiveness of the industry is due to the fact that industry rivals compete aggressively against one another for vital market share. The athletic shoe industry is very old and companies must focus on market share rather than concentrating on market growth. The athletic footwear market is expected to grow at a continual annual growth rate of 1.8% from 2011 to 2018 to reach 84.

4 billion by 2018 (PRWeb). Non-athletic footwear is the largest market segment and is expected to grow faster than the athletic footwear sector.

Various fashion trends in the market, such as demand for innovative designs and styles and celebrity endorsement, is driving the non-athletic footwear market (PRWeb). This new trend in the footwear industry makes the way companies compete vary vastly from company to company. Innovative companies such as Nike strive for product differentiation as well as massive marketing strategies, but other brands such as Sketchers attempt to capture the low budget appeal.

70% of the market share is made up of the top five players which include Nike, Adidas, Reebok, Puma and New Balance (PRWeb).

Other key companies are Asics, Converse, Sketchers and K-Swiss.

The popularity of local manufacturers and growing piracy in developing countries remains the major challenge for global footwear manufacturers (PRWeb). With the new trend of switching from athletic footwear to non-athletic footwear, it makes the threat of substitution very high. The consumers' ability to buy a non-athletic shoe is effortless, especially due to the increased focus on value for money and looking for simple, hard-wearing shoes that last (Report Linker). When it comes to the suppliers in the athletic shoe industry it has a low threat to the companies.

There are a large number of firms that are able to supply the materials and basic needs of the companies.

To add onto the limited threat caused by the suppliers, their industry is not dominated by a small number of firms. The athletic footwear companies are able to exert their extensive power over their suppliers on the three homogeneous raw materials of cotton, rubber, and foam needed to make a shoe (Athletic Footwear: Industry Analysis). Even though the threat of suppliers is not an issue for this industry, the buyers can play a key factor when it comes to the decision making process.

Buyers have a low threat risk because of the vast number of individual buyers, but there are few switching costs for them to switch to a new shoe brand. This causes companies in this industry to focus on the buyer's needs and wants when it comes to designing a shoe.

The five forces model shows that overall profitability can be high for this industry. The cost it takes to produce the actual shoe itself is very low, but the limited amount of major companies that are continually rivaling one another allow them to dominate this industry and make it extremely difficult for new comers to last.

The knowledge and skills that companies such as Nike have acquired over the years allow them to stay on top as well. The companies low production costs and high markup costs allow those firms in this industry to thrive to the point of their limits. But because these companies have grown so large, they must compete viciously against one another for the same customers. The main competitors of Nike in the shoe industry are K-Swiss, Skechers, and Under Armour.

These are the publicly traded companies and are in direct competition in shoes. Nike dominates the market and has 42% of domestic market share in the United States (Articlebase).

Recent net sales reports Nike at \$24.12 billion (Market Watch), K-Swiss at \$268.36 million, Skechers at \$1.56 billion, and Under Armour at \$1.

83 billion. Nike has been the leader the shoe industry since 1980 when it gained 50% of United States market share (MyBizIQ.com). They have maintained the position as leaders in the shoe industry. Nike has become experts in segmentation and targeting their market (NikeRepository.

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