

# [Five forces analysis of the fashion retail industry](https://assignbuster.com/five-forces-analysis-of-the-fashion-retail-industry/)

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Porter’s Five Forces analyses are an approach to determining just how competitive a given market is, and consequently, how profitable it may be for a business. This framework draws on five factors, known as the ‘ five forces’, to achieve this.

These five forces are:

buyer power — the ability of buyers to decrease the prices they pay

supplier power — the ability of suppliers to increase the cost of their product or service

competitive rivalry — the intensity of competitive activity which might affect how much business a company receives, or how high sustainable margins are

the threat of new entries/entrants — the threat posed by new entrants in a market

the threat of substitution — the threat posed by the possibility of substituting a product or service in one market with something else

The fashion retail industry has a market value of several hundred billions of dollars, with the average price per product coming in at a healthy $19 [1]. This article will attempt to analyze the viability of the fashion retail industry as a whole, by means of a Five Forces analysis.

Porters five forces — courtesy of ‘ Grahams Child’

Buyer Power

The first important force is the bargaining ability of buyers, who can choose to push down prices, not buy products, or switch retailers. In the case of the fashion industry, buyer power is a relatively large force. While clothes shoppers are typically individuals with little to none direct bargaining power (as compared to huge companies, buying in bulk, who might be the main clients in other industries), they have many alternative locations to shop for apparel and little incentive to stay with one particular company, giving them plenty of indirect bargaining power.

Supplier Power

In the fashion retail industry, supplier power is a relatively small and insignificant force. Most apparel companies source their products from third world manufacturers who receive just fractions of the profit. Suppliers have little control over the fashion industry as, unfortunately, they are dispensable and can always be swapped out. As a result, input prices for this industry are relatively low and will stay there until the global development gap closes up significantly.

Competitive Rivalry

The fashion industry is an interesting one when it comes to analyzing through the intensity of competitive rivalry. There are large numbers of retailers who sell very similar products, but there’s also the concept of brands, which allow some companies to sell apparel for ridiculous rates. Nowadays there is little innovation in this space, so the market is quickly becoming saturated with very similar products [2]. In this sense, the fashion industry is a very difficult one to get into, and is almost becoming a ‘ race to the bottom’ — not good news for retailers!

Threat of New Entries

As mentioned previously, there is little that is unique to bring to the table in this industry, so this force is also somewhat small. However, new entries might find unique ways to popularize their own products (which might not even be particularly special), and as such build novel brands — perhaps through clever use of social media. The fashion industry in its current state is ‘ high risk, high reward’ for new entrants — it’s not too difficult to get a foot in the door and copy others, but will the markets care for those products?

Threat of Substitution

Fortunately for those in the fashion retail industry, there is little to substitute clothes with. This force is almost negligible — all ‘ substitution’ in the fashion industry is really just competition.

To sum up, the fashion industry seems difficult to successfully dive into, and bleak for companies already within this space. This Five Forces analysis has shown that while there are few threats and little supplier bargaining power, it is not good that the market is effectively nearing saturation. Buyers have large amounts of indirect power to bargain with — i. e. plenty of choice — and lots of competitors make it hard to sustain a place in the market.

Image: Catwalk Photos/Shutterstock. com

[1] http://www. statista. com/topics/965/apparel-market-in-the-us/

[2] http://www. dezeen. com/2015/01/30/olivier-theyskens-interview-fashion-industry-saturated-seoul-design-week-2014/