

# Porters force analysis on leisure cruise industry



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The world economy has been engulfed by strong international competition. Porter has argued that strategy equates how any firm competes against others in its business. He argued that strategy is not just a series of models at the corporate level of strategy. The strategy includes analyzing potential entrants, suppliers, buyers, substitutes and competitors. He describes the competitive forces shaping an industry in his six forces model of industrial competition. By analyzing the forces, one assesses the forces driving competition in an industry and evaluates the odds of a firm successfully entering and competing in an industry. The forces are includes: potential entrants with their threat of entry, suppliers with their bargaining power, buyers with their bargaining power, industry competitors with their rivalry among existing firms, and substitutes with their threat of substitute service or product and. Government involvement is another force that affects any industry[i].

The entire leisure industry is composed of sub industries including gaming, cruise, lodging, sports facilities, travel and tourism and vocational ownership. Cruise is one of the fastest growing sectors in the leisure industry which ensures that people enjoying their vacations get transport facilities. Under this sector, the companies which mostly operate are shipping companies which transport people in leisure from one place to another. The companies include AIDA Cruises, Celebrity Cruise, Cunard line, Disney Cruise Line, Holland American Line, Ocean Village, Princes Cruises, Royal Caribbea International and Seabourn Curise Line. All these named operate in Florida under the umbrella body Florida-Carebbean Cruise Association (Maya, 2010) [ii]. This is an industry of fun characterized massive investments. Taking

Ocean Village as an example of companies representing the entire industry, this research paper will analyze the six porter forces that affect the industry[iii].

#### Buyers and bargaining power

In the industry, buyers are traveler going for vocational tours, leisure activities and all that pertains to fun. Buyer power is the capability of buyers, their agents, and customers of the industry to influence the price charged and terms of purchase. If buyers' power is high, then the profit margins of the firms operating in the industry tends to be low. If the buyers are organized and are few, then their power is high. The industry whose buyer power is high tends to be unattractive to new investors since the realized profits are normally low (Peng, 2009, p. 42). In this cruise sector of the leisure industry, buyers are few and tend to be organized. Therefore, Ocean Village Company feels the pressure of well organized buyers who have high-bargaining powers.

The industry represents buyers from higher economic and social class who can organize and ask for their rights in the industry. They are willing to spend their money for leisure services hence do not see much impact on pricing as long as they get quality services. Ocean Village Company has tried to include some other services to make any voyage successful and attract more customers. These include the health facilities provided within the company and accommodation features offered to travelers.

#### Potential entrants and entry barriers

When a company and industry in general, is making profits, other investors think of venturing into that industry so that they enjoy the profits realized. This creates a question of how the incumbent firms within the industry try to create barriers for new entrants. The executives of the industry try to create barriers even if it means spending some money on the same project[iv]. If the current firms in the industry can keep potential entrants at bay, the entire subject of competition and its impacts on the incumbent firms' profits become moot. The threat of new firms to enter an industry is low if the incumbent firms have high powers to influence prices, control resources and shape the nature of competition within the industry.

In Florida, the industry has organized its firms and formed an association to deal with such matters. The association, Florida-Caribbean Cruise Association, protect the firms from any external entrants as much as possible. It has partnered with the government to set high standards for any firm that wish to enter into the industry. This makes potential investors be scared away from entering such a market hence the industry can be classified as enjoying the powers to protect its current forms from the potential entrants.

#### Suppliers and their bargaining power

Supplier power is the capability of vendors to decide the prices and terms of supply. Suppliers include vendors of labor, raw materials, and capital goods. If their power is high, then the profit margins of the incumbent firms tend to be low. Such low profit margins make an industry unattractive to potential entrants. The existence of many suppliers indicates low supplier power, and

vice versa. Firms in the industry rely on many supplier categories to accomplish its services. The major suppliers of the industry are those that supply fuel to firms in the industry. Shell Company is the main supplier of fuel in the industry but there are other potential companies which can supply. Ocean Village Company has entered into agreement its suppliers on terms of sale which are not altered till the agreement period expires.

### Substitute products and services

The availability of substitutes for an industry's products and services alters the power of the incumbent firms. As the availability of substitute products and services rises and the ease of substitute increases, the power of incumbent firms to control prices and terms of business declines. In the case of this industry, the substitute might be airline transport, rail and road. However, they do not provide the intended services the buyer wants when choosing. Cruise industry provides recreation facilities, good environment in water and others that a person on leisure activities needs. This makes the industry enjoy limited substitute products and services. The power of the firms operating in the industry is therefore high.

### Competitors and rivalry

Competitive rivalry is the extent to which firms respond to competitive moves of other firms in the same industry. In some industries like cruise industry, "gentleman's agreement" exists whereby firms respect one another's market niches and follow a "live and let live" strategy (Ireland et al, 2008, p. 82). The industry has formed an association which deals with such issues as competition and unwanted behaviors within the industry. This

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reduces competition and rivalry within the industry making the companies operated in a friendly manner. They are associated to provide better and quality customers to leisure customers and there is no need to compete in the expense of the industry and consumers. In other sectors within the larger leisure industry, a “dog eat dog”[vi] idea prevails, cutthroat competition is the rule and competitive moves are vigorously encountered. This happens in hotel sub industry since many firms exist here.

### Government involvement

This is another force, although not commonly talked as, which influences any industry. It is a requirement for the firms in any industry to comply with all government regulations including registration, paying taxes and be responsible to the environment. Government involvement determines the profitability of an industry. Sometimes, the government comes in to protect its consumers from exploitation by firms in any industry[vii]. They can decide to control prices and quality of services offered. The amount of tax charged also reduces the company operating in that industry's profits. It can be realized that in Florida, the government ensures that the safety of sailors is maximum and the quality of services offered is optimal. Since the firm operates in water, it is supposed to maintain high standards to protect the environment, water in this case. According to Kassing (2006)[viii], Government provides infrastructure for all commercial recreation and tourism enterprises. However, the government involvement in this industry is minimal. This is because the industry does not offer basic commodities which would make the government intervene to control prices. The company enjoys government protection from sea rivals. The requirements the

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government has put in terms of new entrants are too involving making the industry one of those that are hard to enter into by new companies.

## Conclusion

The forces determine profitability of any industry as they influence the costs, prices, and required investment of firms in that particular industry. Buyers power influence the prices Ocean Village Company and any other company can charge. It also has an influence on investment cost since empowered buyers asks for expensive services. Supplier's bargaining powers influences input costs like fuel. The rivalry influences prices and competing costs. On the other hand, entry threat limits price charged and makes incumbent firms invest to avoid it (porter, 1985, p. 7). The Florida based companies operating in the cruise industry formed an association, Florida-Caribbean Cruise Association, which has changed the industry structure. They agree on how to conduct businesses, how to create entry barriers and common features to adopt so as to satisfy their customers in Leisure-Cruise industry. It is a strong association of firms that have made the industry one of the popular in Florida and profitable.