

Environmental analysis of leisure industry



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Government intervention has a huge influence on the regulation of firms operating in the leisure goods industry, and on the spending power of consumers and other businesses.

The government needs to reform the UK tax system to make it more competitive, simpler, greener and fairer. Major tax reform is necessary to enhance the international competitiveness of the leisure goods industry and the UK in general. Reforms to the corporate tax regime set out in the Budget will partly achieve this. Also, better tax policy making needs to be underpinned by greater transparency, a central theme in the Coalition Programme for Government. These reforms will restore the UK tax system's reputation for predictability, stability and simplicity and indeed make the leisure goods industry internationally more competitive.

The firms operating in the leisure goods industry are paying corporate tax for the year 2010-2011 at the rate of 28%. This is not very competitive compared to other countries such as Ireland 12.5% or Montenegro 9%.

As from 4th of January 2011 the new standard VAT rate for the UK will be 20%. This 2.5% increase from the previous 17.5% could affect sales and revenues in the leisure goods industry. This increase could also fuel inflation which will furthermore affect the industry. The impact on the overall industry will be that they will need to find new cost effective strategies in order to maintain their low prices.

Economic factors:

The leisure goods industry was an early casualty of the global economic recession. The demand for these products has decreased in the past two years because spending on leisure goods is discretionary.

The Bank of England's Monetary Policy Committee voted on the 10th of February 2011 to maintain the official Bank Rate paid on commercial bank reserves at 0.5% for the 23rd month since March 2009 despite pressures of inflation.

The UK rate of inflation is now at 4%. Two main reasons for this are the rise in VAT and the continued increase in crude oil prices. Both of these factors are impacting negatively on the competitiveness of the leisure goods industry as it now faces higher costs. This surge in inflation could also provoke higher wage demands from employees. This rate is well above the interest rate which means that consumers have decreased spending power. This will have adverse effects on the leisure goods sector resulting in decreased demand for leisure goods.

A bold monetary policy that balances inflation and interest rates is needed to allow medium-term growth in the leisure goods industry and in the overall economy and to ensure borrowers' finances are sustainable.

The rate of unemployment in the UK in 2011 is 7.9% but for 16 to 24 year olds it is 20.3%. This means that general consumer incomes are low and demand for leisure goods is also low.

Social factors:

Changes in social trends can impact on the demand for a firm's products and the availability and willingness of individuals to work.

In the UK the population has been ageing. This signifies falling demand for leisure goods such as toys. Also, firms will face increased costs if they are committed to pension payments for their employees because their staff are living longer.

The UK leisure goods industry has an advantage internationally through the English language. It facilitates the diffusion of the leisure goods onto new markets and can attract revenue from abroad.

Technological factors:

New technologies create new products and new processes.

The toy industry is currently trying to keep pace with the evolution of kids' worlds. Products like ' Tween Electronics' are so new that retailers are changing merchandising strategies to accommodate these new and popular products. Such developments require everyone in the industry to rethink elements of their business from the ground up. The availability of new technology means that toys do more and are cheaper to produce as the cost of the new technology is now spread over a larger output. Higher consumer expectations force firms in the leisure goods industry to include modern technologies into their new products eg. MGA's Bratz Video Cam.

The leisure goods industry has improved ways of doing business as a result of better technology such as online shopping, bar coding and computer

aided design. Technology helps firms to be cost-effective, improve quality and lead to innovation.

Micro Environmental Analysis

What is the Leisure Industry?

Over time, people have found that they have more free time on their hands due to working hours decreasing. The leisure industry has benefited hugely from this as it makes money on those who want “ something to do”. There are many fields within this industry such as: restaurants, theatres, gaming centres, hotels and sporting arenas. Anything that is made to occupy ones leisure hours and is enjoyable is essentially part of the leisure industry.

Imports for this industry include building materials for construction of new premises or extensions, equipment for gyms or hotels and food and drink for restaurants and hotels.

Exports from this industry are mainly tourists coming into the country. However this benefits all other sectors of the industry as they will spend money on these as well.

The leisure industry is part of the tertiary sector of the economy as it offers service to customers in return for money and this where the majority of the income comes from. The main expenditure is on employee wages and materials for the running of the firms.

This industry was growing rapidly from 2000 to 2006 as disposable income was very high among the labour force. However since the recession there

has been a decline in this industry as it depends on discretionary spending which is not high as these times.

Reasons for Growth:

Increased leisure time: over the years working hours have reduced and flexible working hours are available which has led to people having free time and doing more leisure activities.

Improved transport: transport has improved enormously recently and is now faster, cheaper and easier to use. This means people can get to leisure activities without any trouble and can go on more holidays abroad.

Wider choice: the amount of leisure activities available to the public is an endless list so it is easy for people to find something that they enjoy.

Health conscious society: in today's society being healthy is very important to most people. Taking part in leisure activities is a great way to stay in shape and have fun at the same time.

Factors affecting growth:

Less disposable income: a number of years ago disposable income was high among working people. However due to the recession this is no longer the case and leisure activities is not affordable for some people as they have no money for discretionary spending.

Main Sectors in the Leisure Industry

Gaming: This sector employs around 30000 people in the UK in developers, publishers and retailers. There are 250 games studios in the UK and it is the

biggest development community in Europe. This sector is the fastest growing in Entertainment media in the UK.

Tourism: There are over 100000 people employed in this sector in England. It generates a lot of money and visitors for the country. This sector benefits many other sectors as tourists will spend money in these too.

Gambling: In England there are around 73000 employees in this sector. Although there are not a lot of people working in the gambling sector, it is massive online and generates enormous amounts of money.

Sports: There are over 375000 people employed in England in the sports sector in fields such as fitness, health, recreation and outdoor activities. This sector has the largest numbers of people involved in it in relation to participation as there are 1000s of clubs and societies across each country.

An identification of the major companies and their market share

Please find attached a spreadsheet analysis of the major companies in this industry, their annual sales revenue for 2010 and my estimate of their percentage market share in the Global Leisure Goods Market.

I prepared this spreadsheet having researched on the internet, estimates of the size of the market (see sources on spreadsheet) and by researching the top ten companies' annual reports.

I note that the estimates of the size of the industry are lower than what I would have expected given the sales figures for the top ten companies.

While this is a market dominated by large companies I was surprised to

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arrive at a figure of almost 75% of the market being supplied by the top ten companies. I would suspect that a proportion of each companies sales falls outside the scope of this particular market but I was unable to obtain any comparable breakdown of appropriate sales from the annual reports of these companies.

While the figures presented may not therefore be totally accurate, it gives a good representation of the relative importance of the top ten companies and their relative importance to the industry as a whole.

Can the basis for competition in the industry be identified?

This is a very competitive and dynamic industry where product development is a ever present factor in competition and technological advances mean that product price reductions are very frequent.

With reference to Porters Five Forces of Competition:

Threat of Entry of new competitors

This industry is highly regulated with strong barriers to entry in terms of patent protection and legal rights to intellectual property. As can be seen from the previous section of this report, the industry is dominated by a number of very big companies with the financial muscle to protect their intellectual property. The scale of the existing market leaders are also such that new entry companies can be bought out at an early stage of development by the large if they pose any threat. E. G. Microsoft purchase of Winternals software in 2006.

However, the global merging of product capabilities means that companies which previously might not have competed begin to compete because of the addition of capabilities to a particular product e. g. Email, Phone and TV reception on iPhones. So switching costs can be low in certain circumstances.

Intensity of Competitive Rivalry

The rivalry between the big players in this industry is legendary. HP and Dell have been intense rivals for most of their existence. Similarly Apple came from behind to spectacularly overtake Nokia in the mobile phone market.

Apples competitive advantage was won through innovation in terms of the service delivery and ease of use of its products. I. e. the introduction of apps.

Advertising spend in the industry is high as a proportion of sales and forms part of grand competitive strategic plans.

Threat of substitute products or services

The threat of substitute products or services is immensely important to this market. E. G. Sony and Amazon Kindle book readers are now likely to enter a serious falling sales period as their use has been largely substituted by the apple iPad and other such devices.

Bargaining Power of Suppliers

At times e. g. Intel supplying computer microchips certain suppliers in this industry are in a strong bargaining position. However the scale and intensity of competition in the industry means that usually other suppliers quickly

come in to compete. The Intel example is unusual where it took many years for AMD and others to effectively compete with them.

Bargaining Power of Buyers

The ratio between buyers i. e. consumers and the number of suppliers i. e. large manufacturers is very high. Therefore while it is a very competitive industry as discussed above the reasons are due to switching ability etc. not to the bargaining power of buyers.

Degree of concentration/Fragmentation

This particular industry, Leisure goods was a constant growing one. As a result of the increased wealth among people around the world and indeed Ireland and Great Britain this industry has flourished in recent years. “ The UK market in this sector is well developed and growing strongly. The emergence of the middle classes in India, China, Russia and South East Asia has created a demand for high-end products and luxury goods.”

However now as markets take a downturn the once concentrated industry that allowed consumer choice is now struggling to keep floating. The money is not available anymore to support the smaller leisure goods and only the ones that have financial backing will be able to ride this recession wave. “ Spending on recreation and leisure is discretionary, varying in line with disposable income, and the sector reacts fast to recessionary pressures. For this reason, expenditure in the sector is highest where consumers have time and money to devote to leisure”. As a result in an educated opinion from studying the industry, this industry is moving from one of extreme concentration to one that is more fragmented.

Issues or challenges facing the industry

At one point the major issue facing this industry was saturation as so many companies were setting up to profit from the intensely growing industry but now the main threat is the Recession. It is widely believed that at this time the industry is severely under threat. Consumers just don't have the money they used to have to spend on leisure goods. While it can be argued that it is in hard times that people increase their spending on leisure goods to raise morale it is not going to be enough to save the sector. Big companies such as Ryanair, while suffering some minor profit drops will be ok as they have the finances to protect themselves. It is smaller companies such as sports coaching and video games that will be hit the hardest. In relation to investment, money can be made greatly in this sector but one needs to be intelligent about where s/he invests. This view is seen by Lisa Smith, an author of an article about this particular problem: " Leisure and luxury are always in demand. Although not everyone will drive a Bentley or book a penthouse suite at the Ritz, most of us can scrape together enough cash to drink an exotic microbrew, indulge in a special perfume, splurge on a luxury handbag, or simply eat at a fast-food restaurant. While the lower end of the luxury scale can seem mundane to those living in developed nations, the opening of fast-food outlets in emerging-market countries is a big deal to those global citizens getting their first taste of what many think of as " the good life." While economic cycles come and go, and the lower end of the leisure market suffers from people having less money for fun when times are tough, the pursuit of a good time and the good life are universal goals. As globalization continues to spread capitalism around the world, the appetite for luxury goods and entertainment is almost certainly going to expand and

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not going to disappear. As long as consumer demand creates a market for fun, fund managers will find a way to invest in it.

<http://www.investopedia.com/articles/mutualfund/08/leisure-funds.asp>

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Recommendations

Secure Sectors/Investment:

As you can see from the appendices of this report, the ten largest companies are very strong and continue to expand at a steady rate. These companies, therefore, should provide a good return on your investment.

Risky Sectors/Investment:

There are many start up firms in this industry, and although in some cases they grow into very successful companies, there are many cases where the life cycle is short and they dissolve very quickly. This is usually due to no benefits arising from investments in R&D. So proceed with caution when deciding to invest in these smaller start-up firms.

As most of the consumption of leisure goods and services is discretionary spending, the industry is very sensitive to economic changes. Presently, as the economy is in recession, the industry as a whole is being hit hard. Only the largest companies are seeing growth in their revenues, and even that growth is small.

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Conclusion

The main sectors in this industry are gaming, tourism, electronic goods, gambling, sport and recreation. The industry is dominated by a few, very large players in these sectors. Competition between these huge firms is rife, and it is nearly impossible for new firms to compete at the same level, so it could be seen as a two tier industry in terms of company size. Growth is largely linked with disposable income, and investment is risky

Appendices

Global Leisure Goods Market

Estimate of Market Size – 2010

Consumer Electronics Companies

\$681, 000, 000, 000

From US Consumer Electronics Assoc.

Toy and Recreational Products Companies

\$80, 000, 000, 000

From Market Research. com

Luxury Consumer Leisure Goods

\$168, 000, 000, 000

From People Daily . com

Total

\$929, 000, 000, 000

2010 Sales

% Market Share

1

Hewlett Packard

\$126, 000, 000, 000

13. 56%

2

Panasonic

\$84, 000, 000, 000

9. 04%

3

Sony

\$78, 000, 000, 000

8. 40%

4

Toshiba

\$76,000,000,000

8.18%

5

Apple

\$65,230,000,000

7.02%

6

LG

\$60,000,000,000

6.46%

7

Nokia

\$56,404,000,000

6.07%

8

Dell

\$52,902,000,000

5. 69%

9

Microsoft

\$51, 238, 000, 000

5. 52%

10

Samsung

\$46, 522, 000, 000

5. 01%

Top Ten Companies

\$696, 296, 000, 000

74. 95%

Other Leisure Product Companies :

1

Canon

\$28, 014, 250, 000

2

Mattel

\$5, 856, 200, 000

3

Harley Davidson

\$4, 859, 000, 000

4

Hasbro

\$4, 002, 160, 000

5

Bandai Namco

\$3, 889, 310, 000

6

Brunswick Corporation

\$3, 403, 300, 000

7

Tiger Corporation

\$3, 008, 250, 000

8

Tomy Corporation

\$2, 150, 000, 000

9

Pool Corporation

\$1, 539, 790, 000

10

Lego

\$1, 421, 000, 000

\$58, 143, 260, 000

6. 26%