

Threat of new entrants essay sample



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In the porter's five forces, threat of new entrants refers to the threat of new competitors pose to existing competitors in an industry. A profitable industry will attract more competitors looking to achieve profits and If it's easy for these new entrants to enter the market, if entry barriers are low this poses a threat to the firms already competing in that market. More competition or increased production capacity without the concurrent increase in the consumer demand. That clearly means less profit to go around. According to the porters 5 forces, threat of new entrants is actually one of the forces that shape the competitive structure of an industry. Porter's threat of new entrant's definition revolutionized the way people look at the competition in each industry. Threat of new entrants porter created affects the competitive environment for the existing competitors and influences the ability of existing firms to achieve profitability.

A high threat of entry means new competitors are likely to be attracted to the profits of the industry itself and can enter the industry with ease. The new competitors entering the marketplace can threaten or decrease the market share and profitability of the existing competitors and may result in changes to existing product quality or price levels. There are several factors that determine the degree of the new threat of new entrants to each industry. Many of these factors fall into the category of barriers to entry, or entry barriers. Barriers to entry are factor or conditions in the competitive environment of an industry that make it difficult for the new businesses to begin operating in that market. High threat of entry of new competitors:

1. Profitability does not require economies of scale
2. Products are undifferentiated

3. Consumer switching costs are low
4. Initial capital investment is low
5. Brand names are not very well-known

Low threat of entry of new competitors:

1. Initial capital investment is high
2. Brand names are very well known
3. Profitability requires economies of scale
4. Switching cost are high

The new entrants in cigarettes industries that are actually a threat are shisha or nicotine patch. Based on research smokers think of quitting at least once every 2 months. This could be one of the time that shisha or nicotine patch to change the consumer's path from cigarettes to nicotine patch. Quitting smoking maybe was never easy, but a growing number of smoking cessation aids make it easier than ever for smokers to break their addiction to nicotine. Research already suggests that medication and nicotine replacement therapies can double and sometimes even triple the chances that smoker will successfully quit. Now this is one of the thing that the cigarettes industries are scared for, a new entrants that is actually help the consumer for a greater cause than cheap. But again everything have their own side effect so does nicotine patch, this the side effect that might make the consumer stay loyal for smoking cigarette.

1. Headaches
2. Cold or flu-like symptoms
3. Dizziness

4. Anxiety
5. Sleep problems
6. Vivid dreams

Those factors above may make the smokers stay loyal, in consumer-wise those kind of side effect. But the capital investment and the fact that the cost to switch to nicotine therapy is high is becoming the reason that nicotine patch still are a low threat entrants for cigarettes industries. Since nicotine patch are a low threat for cigarette industries, e-shisha and nicotine vaporizer became one of the biggest contender in the industry. They almost fit all the factors that needed to be determined as a high threat for cigarette industries. Maybe the products are differentiated, but with the more bad images cigarette smokers get the better for personal vaporizer. The switching cost are low and the brand is very well known. E-cig industries might now still not as open as cigarette industries because there are countries that cigarette industries is one of their biggest income, like Indonesia. In Indonesia its been pros and cons between smoking cigarette and the e-cig since the country ' may' be in the same way as the cigarette industries but with the more people changing to e-cig the faster it is also to becoming a major threat for cigarette industries in Indonesia specifically.

Intensity of rivalry within the industry

The intensity of rivalry, or competition, will have a significant impact on the ability to generate adequate margins. The intensity of rivalry or competition among firms that competing in the same industry varies depending upon a number of factors. Industries with one dominant firm tend to be more stable

than fragmented industries where one competitor may try to achieve dominance. The degree of the concentration or the extent to which the industry is monopolistic is really considered as an important aspect on how competitors are likely to behave. If an industry stops growing, for any competitor the only way of growing is by taking market share, competition will intensify until some competitors exit or consolidation takes place. The tobacco industry consists of many competitors trying to satisfy a specific customer need. Companies such as Philip Morris, RJ Reynolds, Brown and Williamson, and Lorillard hold almost the entire market share in the tobacco industry.

While each company has different advertising and marketing techniques, they all target the same customer group. Tobacco companies try their best to generate interest in their particular brand or brands. Companies market a number of attributes that usually include, but are not limited to: taste, flavor, strength, size and image in order to distinguish themselves from competitors. However, all tobacco companies are satisfying the same needs. Many long-time smokers are addicted to the nicotine in cigarettes. They smoke because the nicotine is needed to help them feel normal. Indonesia is the world's fifth largest tobacco market by volume. ⁷ Retail volume sales have increased by over 25% (26.4%) in the last ten years from 132.6 billion sticks in 1998 to 167.6 billion sticks in 2008 (does not include hand-rolled kretek growth). ⁸ The market leaders in Indonesia include both transnational and locally owned tobacco companies. Transnational Tobacco Companies (TTCs) in Indonesia The two largest non-governmental-owned transnational tobacco companies (TTCs)– Philip Morris International (PMI) and British

American Tobacco (BAT) - operate in Indonesia; selling both kreteks and white cigarettes.

The powerful presence and nature of these TTCs further threaten public health because the companies' competitive efforts to reach young consumers and female smokers ultimately increase smoking prevalence in markets where TTCs operate. 1. The TTCs use their immense economic and political influence to weaken tobacco control policies globally 2. As TTCs gain control of emerging markets like Indonesia, they drive down cigarette prices and raise advertising and promotional spending, which in turn increases the rate of consumption in a country 3. Even in the current global financial crisis, the TTCs are considered by analysts as generally recession-resilient, enabling the companies to continue their competition for a larger share in emerging markets such as Indonesia.

4. The TTCs can increase profits by streamlining manufacturing, distribution, and marketing processes, which can reduce unit costs for a cigarette, especially where incountry manufacturing allows access to cheaper labor and transportation costs 5. In just three years after PMI acquired Sampoerna in Indonesia in 2005, the TTC has overtaken the previous market leader Gudang Garam Tbk PT, a domestic Indonesian company, in terms of sales and profits, and now has the largest market share. 6. In 2008, a Euro monitor International report placed Indonesia as PMI's 4th largest market. The country is considered an emerging market specifically targeted by PMI to improve the growth of the company. PMI operates in Indonesia through two companies 1. PT HM Sampoerna Tbk. In 2005, PMI became the majority shareholder (97.95%) in Sampoerna, which operates five cigarette

manufacturing facilities in Indonesia, the biggest of which is Pandann, East Java.

In 2008, a new manufacturing facility in Karawang, West Java was completed. Sampoerna owns Alfamart mini-mart chain of about 1000 stores that offers PMI the opportunity to increase marketing and sales of its products. Philip Morris Indonesia was established in 1998 with the takeover of a production facility in East Java. Philip Morris Indonesia makes all of PMI's white cigarettes sold in country, including segment leader Marlboro brand cigarettes which sold 10.9 billion sticks in 2008. BAT operates in Indonesia through two companies. PT Bentoel Internasional Investama Tbk. In June 2009, BAT acquired control (85% share) of Bentoel, which, in addition to being a leading cigarette manufacturer, is also a holding company for other businesses including trading, industrial manufacturing, constructions and development services, and owns a recreational park. BAT reported that its June 2009 purchase of Bentoel represents “ an excellent strategic opportunity to enter the very large and growing Indonesian kretek market and will provide a platform for future growth.” Regarding BAT's purchase of Bentoel, an article in the tobacco industry trade press noted that the acquisition will “ help BAT. . . expand in a country where there are few limits on advertising and no restrictions on sales to minors as anti-smoking rules get stricter in Europe and the U. S.” By September 2009, BAT bought the remaining public shares in Bentoel bringing their total ownership of the company to 99.74%