Essay

The ice cream and frozen desserts is a very important sector in the US and its dairy industry. The US is ranked the world leader in ice cream production from producing approx. 21 pounds of ice cream (regular and low/non-fat) in 2003 to producing 930.7 million gallons of regular ice cream, 78.5 million gallons of frozen yoghurt and 57.7 million gallons of sherbet. As we can see there is a big difference throughout the years.

With the help of Porter’s Five Forces, it can determine the level of competition that is present in the business environment and the level of profits it will get. It can also help them prepare and respond to the changing role of business and help them analyse business opportunities and problems. The five forces in this framework includes:

1. Competitive Rivalry
2. Threat of Substitutes
3. Threat of new entrants
4. Bargaining power of suppliers
5. Bargaining power of customers
6. Competitive Rivalry

Back then competition is seen negative but it has since changed overtime. Competition is now seen as an advantage by different industries. Competition allows them to work hard and develop products in order to attract their own customers or target audience.

Within the ice cream and frozen desserts industry there is a high level of competition between them. California was the leading and the largest ice cream producing state in the US followed by other states such as Indiana, Texas, Pennsylvania, New York and Missouri. So as we can see the number and size of competition is relatively big and this creates competition between them such as competing against raw materials e.g. milk. Ice cream often starts with milk which are produce by dairy farmers. In 2009 approx. 9.2 million cows in the US produce 183 billion pounds of milk which are used by ice cream producing states. So this creates competition of raw materials between the states. For example in 2007 California produced more than 153 million gallons of ice cream. This indicates that California has a high consumption of milk. Therefore the competition for raw material intensifies.

As the industry evolved many companies started emerging and created rivalry between them. There are too many direct competitors. Companies within this industry are often small with 63% employing just 20 workers while the 17% employs 500 employees or more. Therefore this can increase competition within this particular industry. Companies and their brand of ice cream, that are competing against each other includes:

Haagen-Dazs (Subsidiaries of Nestle)

This brand has been created since the 1960s. This particular brand is famous to the public because of its high quality of natural ingredients and no artificial stabilizers or additives. It is also successful that sets the bar high for rich and clean-tasting ice cream.

Ben & Jerry’s (Subsidiaries of Unilever)

Ben & Jerry’s is a leading manufacturer of high quality of ice cream which is based in Vermont. In 2004 it had sales of $85 million and the Unilever PLC (Parent Company) was the global leader in the ice cream industry which acquired a lot of ice cream companies, including Mexico and the Philippines. They have also sold other frozen desserts such as frozen yoghurt and low-fat ice cream, in Europe, Canada and Japan.

There are many more brands that are competing with each other but these two are the most famous brands within the public. When it comes to targeting the market with their products there is still competition but nothing major. As mentioned earlier there is a growth in the ice cream industry therefore there is a lot to choose from by the public. For example Ben & Jerry’s sell frozen yoghurt and low-fat ice cream in Europe, Canada and Japan and this attracts consumers that are conscious about their health. This gives them an advantage as more people will buy these kind of products because they are good for the health. There is also a growth in target audience. For example ice cream novelties such as ice pops and ice sandwiches which were intended by children became popular with the adults. Haagen-Dazs entered this market and produced products such as Dove Bars.

1. Threat of Substitutes

Substitutes in the ice cream and frozen desserts industry can include products that have the similar purpose and are often chosen by the consumers. Before going in to detail about the substitutions, why did it led to this? First of all the reasons why is because some ice creams have ingredients that are unhealthy. To be called an ice cream it has to have a minimum of 10% butterfat and this was regulated by the government (US). The best source of butterfat is fresh sweet cream which has 50-75% fat. Other fattening sources that are used include dried cream and concentrated sweet cream. Now consumers are very concerned about the fat sources that are being put on ice cream and they believe that it has a negative effect on the diet. Even though no ice cream and frozen dessert makers could produce a product that can be called pure “healthy”, they still make products that had reduced sugar or fat (25% less fat) in order to meet the needs of Americans who are opting for a healthy living. Others make products that have reduced carbohydrates and added calcium. So as we can see American customers are going for the “better for you” products as they are much healthier than regular ice cream.

So low fat ice cream, that has no more than 3 grams of total fat per reference amount, is a big threat on the regular ice cream and even though it experienced a drop of production by 1% from 2008 it is still popular within the public. In the US in the year 2009, ice cream producers produce 381 million pounds of low fat ice cream. So as we can see the trend of low fat ice cream is increasing. By 2010 most consumers are still looking for “comfort” food which is ice cream but this time “better for you” products that are much healthier are being introduced to the market.

In conclusion “better for you” frozen desserts are increasing in popularity which can be seen as threat for regular ice cream.

1. Threat of New Entrants

When a company wants to set up in this industry from scratch they will have a lot to consider before doing so. Within the industry there are many threats of entry such as brand identity which can result to brand loyalty. If a new ice cream company was to set up they will have a hard time on sharing with the target market. For example the ice cream company Dreyer’s Grand Ice Cream have products have consumer benefits. They offered a huge variety of frozen desserts that are low fat, sugar-free and fat free. This created a positive brand that benefits the consumers and resulted in brand loyalty and repeat purchasing. Other brands that have a good reputation includes Ben & Jerry’s and Haagen-Dazs. So as we can see new ice cream companies will have a hard time on establishing its brand and will have a hard time on getting consumers.

It is also costly to set up a new ice cream company. Companies will have to invest a lot in technology in order to make their ice creams and try to make it different from the others. Examples of new technology advances includes Homogenization. Homogenization allows the fat particles to be reduced and continuous freezing process in order to have a consistent ice crystal structure. Production and manufacturing advances that centred on formulation refinements, stabilizers and process systems. So as we can see new companies will have to spend a lot of money to this technology in order to make their product. They also have to follow government policy which says that ice creams should have 10% butterfat and federal regulations which says that ice cream producers should limit overrun so ice creams shouldn’t weigh less than 4.5 gallons

1. Bargaining Power of Suppliers

The power of the suppliers in this particular industry is very weak. An ice cream is created with milk first. Suppliers for milk in America is huge. There are a lot of American dairy farmers. As mentioned earlier over 183 billion pound of milk was produced by 9.2 million of cows in 2009. So as we can see there are a lot of milk suppliers in the US and for the ice cream producing states, it will be easy to choose a supplier and it is also easy to mover from a new supplier due to the huge number of it. Therefore suppliers do not have power over companies that need this raw materials.

The

1. Bargaining Power of Buyers

The power of buyers can either increase or decrease a firm’s profit. Within this industry the power of buyers are high. Consumers have the power to switch to an alternative product, easily, for example they can buy low fat ice cream instead of the regular ice cream that can be unhealthy without high costs. The other thing is the advanced technology that we have in this generation, consumers can produce their own ice cream without buying a brand ice cream. This can be a threat to companies and this could reduce their profits. The other thing that shows us that buyers have a high power within this industry is how they changed their purchasing pattern due to the recession.

Due to the recession consumers are not carefully looking at what they are buying and how much many they are spending. So with that said, in America most consumers are not spending their money on ice creams and instead stay at home, eating in. Consumers have now become price sensitive. As we can see they have the power to purchase or not. This is seen as a threat also as it can reduce profits in the ice cream industry.

Conclusion

The analysis shows us that within the ice cream industry there is a high completion not only when it comes to the consumers, also for raw materials. It also shows us how difficult it would be to set up a new ice cream company due to different factors and how companies changes, profit wise, when consumers have the power.