

**An analysis of Beats by Dre: Porter’s five forces, marketing mix and Ansoff
Growth Matrix**

Table of Contents

Executive summary.....	2
1. Introduction.....	3
2. Porter’s five forces.....	3
2.1 Bargaining power of suppliers: Moderate.....	4
2.2 Rivalry: High.....	4
2.3 Threat of new entrants: Moderate.....	5
2.4 Threat of substitutes: Moderate.....	5
2.5 Bargaining power of buyers: Moderate.....	6
3. Marketing mix analysis.....	6
3.1 Product.....	6
3.2 Placement.....	7
3.3 Price.....	7
3.4 Promotion.....	7
4. Ansoff Growth Matrix.....	7
4.1 Market penetration.....	8
4.2 Market development.....	8
4.3 Product development.....	9
4.4 Diversification.....	9
5. Conclusion.....	9
References.....	11

Executive summary

Beats by Dre have demonstrated much success in offering premium sound experience to music consumers since its entry into the premium headphones scene. In 2013, NPD Group reported that Beats control an approximate 27% of the \$1.8 billion headphone market, and a substantial 57% of the premium headphone sector (defined by headphones costing more than \$100) (Leopold, 2014). With the growing hype over premium headphones encouraged by the portability of music and the recent emergence of various new entrants into the premium headphones industry, there is a need to re-evaluate Beats by Dre's standing in this sector. In so doing, strengths and weaknesses may be identified, both of which will enable Beats to strengthen its positioning and competitive edge within the industry. This report thus seeks to conduct three main analysis, namely Porter's Five Forces, Marketing Mix and Ansoff Growth Matrix to gain an understanding of the key micro-economic influences of the business, the marketing strategies employed and their effectiveness, as well as the growth strategies and solutions used by Beats. The report concludes with the understanding that Beats success is derived from its unique technology and fashion trendiness gives it an edge over its competitors, superior product and promotional strategies, use of multiple sales channels, great entrepreneurial and trendsetting skills, innovation and ambition and keen foresight for expansion.

1. Introduction

Beats by Dre have transformed the ways in which music is being heard on the go with its premium headphones promising both high end audio quality as well as fashion. With Beats discovery of the market for premium headphones however, various new entrants has since joined the industry. This report seeks to conduct three analysis of Beats to understand its successful entry, evaluate its competitiveness, identify its weaknesses and examine its marketing strategy. These three analysis are that of Porter's five forces, the marketing mix and the Ansoff Growth Matrix.

2. Porter's five forces

Porter (1980) identified five competitive forces that explain the superior or inferior performance/economic returns of an industry and market. The five causal variables discussed by Porter (1980) are that of (1) bargaining power of suppliers, (2) threat of new entrants, (3) rivalry, (4) substitutes and (5) bargaining power of the buyers.

Supplier power describes the extent to which suppliers can place pressure on the business, with more powerful suppliers having the ability to affect the firm's volumes and margins (Porter, 1980). Threat of new entrants is the degree of threat posed to the business by new competitors, rivalry describes the capability and number of competitors while substitutes is affected by the ability of customers to find replacement for the firm's product and switch over to alternatives (ibid.). Bargaining power of buyers is defined by the amount of pressure that buyers can place on a firm, with powerful buyers able to dictate the terms to the business (ibid.).

Porter's Five Forces serves as an effective tool for understanding where the power resides in a business and the potential for profitability of a firm. In particular, in simplifying micro-economic theory into five key influences and positing rivalry as a function of the other four forces, it benefits businesses in providing a platform for evaluating the strength of a firm's competitive advantage and its long term vision for its positioning within the industry.

Porter's (1980) model provides a vivid perspective of industry boundaries as well as input-output analysis (Grundy, 2006), both of which will be beneficial in providing businesses with valuable information such as (1) where power lies, (2) the areas in which the business can venture into to capitalise on its strength and (3) areas of weaknesses which firms can work on, all of which will be essential in helping businesses to make informed decisions. In addition, Porter's (1980) Five Forces also serves as an instrument to identify new products, businesses or services which may offer opportunities to pioneer for novel market ventures and hence increase profitability.

2.1 Bargaining power of suppliers: Moderate

The supplier power in this industry is moderate as the number of suppliers is relatively small. This is especially so for Beats, which built its brand on Monster and had endured a cloud of uncertainty with the exit of Monster in 2012 (Bohn, 2012). Beats later found its footing in contracting HTC as its supplier, and at present has been acquired by Apple, ensuring its stronger foothold in the market. However, with Beats reputation inched on a premium technology, the image of its suppliers is of significant importance to the branding strategy of Beats, and therefore allowing suppliers to gain a moderate power over Beats.

2.2 Rivalry: High

The proliferation of new entrants into the premium headphones industry after the trendsetting move of Beats by Dre has increased the competition among players. For example, new entrants into the premium headphones industry following in the footsteps of Beats by Dre include Denon, Skullcandy, Monster, Starck, BeoPlay and Bowers and Wilkins. Not only have these new entrants diluted the dominance of the once upon a time more mainstream, globally recognised brands in the audio systems industry such as Beyerdynamic, Grado, Sennheiser, Sony and Bose, they have also increased market saturation and hence the competition faced by Dre by Beats.

While Beats still commands much power over the industry, holding a substantial portion of approximately 64 percent of the premium headphones market (Brown, 2014), it remains undeniable that competition among rivals is high and set to intensify further.

Furthermore, as newer products integrating other popular electronic functions emerge in the market, such as Tattoo Audio's World's first 'Tri-Connection' Premium headphone with integrated smart watch to smart phone/device connection, Beats is bound to face greater competition in terms of increasing its product differentiation to remain attractive. The competition is also set to become stronger as low switching costs is involved in the premium headphones industry since most tend to adopt rather similar pricing strategies and plans for their products, at an approximate mean price of \$375.

2.3 Threat of new entrants: Moderate

As discussed previously, the emerging demand in premium headphones has triggered an increased array of new entrants eyeing a share of the market which has sales surpassing \$2.3 billion in 2013 (NPD Group, 2014). However, with the big brands, and in particular Beats now dominating the market, it poses a high barrier to potential new entrants into the industry. In addition, although the switching cost tends to be low, consumers in this sector often have a significantly high brand loyalty, to which major brands have already captured. This makes it even more difficult for lesser known brands to enter the market.

Moreover, the cost of entry into this sector is high in part due to the nature of the product and in part attributable to the limited numbers of corporations dominating this sector with economies of scales. As a result of the high barrier of entry into this industry, the threat of new entrants is lower for Beats, although the continuous efforts of potential new players to differentiate its products from its rivals may increase their threat to Beats. Beats has however attained a high international demand, with the sheer size of its firm allowing it to rely on the economies of scale and on outsourcing of production to China to reduce its production costs and hence remain competitive. This is a scale which is often unachievable among new entrants, thereby lowering their threat to Beats.

2.4 Threat of substitutes: Moderate

A proliferation of premium headphone companies offering a similar type of product as Beats, such as Soul by Ludacris, Sync by 50 Cent, House of Marley, Skullcandy, Denon and Harmon Kardon has increased the threat of substitutes. Moreover, some of these

firms utilise different forms of partnerships and market segmentation strategies, apart from artist endorsements used by Beats, to increase their visibility in the market.

For example, Harman Kardon and Logitech partnered with Apple in its design, engineering and distribution, while Denon caters to different market segments in its premium product launches, from the audiophiles, to the workout warriors to the hip hop base lovers (Arnold, 2012). With the mobile music listeners demonstrating a willingness to invest modestly in good audio quality, it appears that these new entrants offering different branding approaches and different specifications are further exacerbating the threat of substitutes for Beats which has a more limited number of offerings.

2.5 Bargaining power of buyers: Moderate

With the proliferation of products and choices within this industry as illustrated above, it may be assumed that the bargaining power of buyers is high. Market saturation offers consumers with a variety of choice and with a low cost of switching, gives buyers strong bargaining powers. However, with its unique selling point as a fashion statement able to deliver supreme audio quality, Beats lowers the power of its buyers as it may not be that easily substituted for other existing products as yet.

3. Marketing mix analysis

3.1 Product

Beats' premium headphones demonstrates not only its productive capabilities, being the combined genius of a record industry and an audio company, both of which possess in-depth knowledge about the music industry and its technological innovations and requirements. Developed out of a desire to understand and fulfil the demand for superior audio quality accessed from more portable devices, Beats' headphone product is thus highly capable of establishing a link with consumers. Quality and design were the main features of the product as the makers identified the need for high quality portable audio which was lacking in the industry, and was also concerned about the looks of the product since it affects the way customers will experience it and use it (now being marketed and used as a fashion statement). Look and sound, together with artist collaborations, continue to feature as the differentiating factor of Beats.

3.2 Placement

Beats uses multiple channels, both stone-and-mortar stores as well as e-retail to promote and sell their products. In particular, purchases can be made both from the Beats website which would also provide a listing of its authorised distributors, website of official retailers, as well as in the audio/electronics sections of mainstream retail stores. Beats' in store products are often accompanied by promotional posters and stands, or by live demonstration setups in stores or isolated through secure shelves requiring access through a sales representative. The exclusivity of Beats' placements within the stores suggest some form of prestige and uniqueness attached to the product, with professional demonstrations and stands further reinforcing the marketing pitch.

3.3 Price

Beats products ranges from \$199-\$699. It is considered to be top end pricing although such a price may be justified by its use of quality materials, refined packaging and high end audio technology. In addition, being a pioneer has allowed Beats to practice 'price skimming' which relates to the setting of a high price on entry into the market before the emergence of competitors.

3.4 Promotion

Beats' promotional strategies are considered to be very effective, being a trend setter and a pioneer entrant into the premium headphones industry. In particular, Beats has successfully advertised itself through the production of commercials, music videos, online social media platforms, trade shows and Beats music tour, all of which involves artists' presence. Also, by not only getting artists to endorse but also use their products, Beats is able to convey the message that its headphones are both trendy as well as of superior quality which is pleasing even to the ears of professional top end artists.

4. Ansoff Growth Matrix

Ansoff Growth Matrix is developed by Igor Ansoff to attribute the ability of firms to grow to the strategies used in marketing their products to existing and emerging markets. Four distinct strategies are highlighted in the growth matrix, namely that of market penetration, market development, product development and diversification. Market penetration refers to the ability to sell more products to more customers, market

development defines the sales of products to diverse customers, and product development determines the selling of new products to similar customers while diversification involves selling new products to different customers (Webster JR, 1988). The benefit of Ansoff's matrix to businesses is that business owners are now able to evaluate their growth strategies and assess the solutions which may offer the best possible return of investments.

4.1 Market penetration

Beats market penetration strategy involves its stepping on the bandwagon to target the increasing music technology allowing for increased portability of music. However, the arena of mobile audio systems technology appear to be left behind, a gap in the market which has been identified by Beats. The genius of Beats lies in its efficient use of existing resources through the partnership of two firms with different specialities, a record-industry powerhouse and a boutique audio company best known for HDMI cables.

By using the skillsets of both these operations, and with the unique ability of Monster's director Noel Lee to detect growth opportunities in the existing market, Beats is able to use a combination of branding, marketing and technical knowledge to grow its premium line of headphones in the existing audio market. Till date, despite the increasing saturation of the market, the head start secured by Beats, together with its talent for trending and its widespread use of artist endorsements has allowed it to continue attracting non-users and gaining competitors' customers, thereby taking a large share of the total industry sales.

4.2 Market development

Beats has certainly contributed much to market development, being a pioneer in the premium headphone industry. In particular, it improved on the existing audio technology to target an emerging market in portable music consumption through handheld devices. Beats also developed a demand for high quality audio among more mainstream consumers through the use of audiophiles and artists to create some buzz and awareness of this industry. In addition, Beats has also expanded beyond its market

in the United States to new markets in Ireland, Russia and China, thereby becoming a global operation (Garrahan, 2013).

4.3 Product development

Product development has certainly been a part of the natural development of Beats as it capitalises on its innovation to attract new customers in other markets. In particular, despite its separation from Monster, Beats has been actively countering competitive entry and maintaining the firm's reputation as a product innovator by actively developing its Studio headphone products with new technology such as the using the automotive servicing techniques to create a lighter and more durable headsets, the advanced power management system to allow for a 20 hour rechargeable battery life chargeable with a micro USB and the adaptive noise cancelling switch (Kujundzic, 2013).

4.4 Diversification

In view of the strong competition in the premium headphones sector, Beats has diversified its product offerings. In particular, it does not want to be considered as a firm specialising in only headphones, and has as such has practiced horizontal integration. Beats expanded into new products such as audio systems for cars, computers, smart phones, and even released various stand-alone products such as a Bluetooth-enabled wireless speaker called the Beats Pill (Garrahan, 2013). It has even endeavoured to integrate Beats technology into the HP laptops (ibid.). It is thus evident that Beats has also diversified into the music service sector, in particular acquiring MOG, a music streaming service to provide music for its consumers (ibid.). In diversifying into these related markets, Beats has gained much synergy and increased its profitability.

5. Conclusion

In conclusion, Beats continue to account for a large proportion of the premium headphone revenues, although the future becomes unclear once again following the recent acquisition by Apple. However, Porter's Five Forces seems to suggest that despite the intensified competition from newer entrants, increased choices and hence

higher buyer power and increased availability of substitutes, Beats' unique technology and fashion trendiness gives it an edge over its competitors.

In addition, the marketing mix suggests that Beats' superior product and promotional strategies justify its price tag, while the provision of multiple sales channels increases the outreach of Beats to its potential and existing customers. Last but not least, Beats demonstrate great entrepreneurial and trendsetting skills in market penetration, immense ambition in expanding the market beyond the waters of Europe and US, immense innovativeness in continuous product developments which encompasses newer technologies, and diversification into a broad range of new but related markets. All these traits are a testimony of Beats' successful penetration into the premium headphone industry and its potential to continue dominating the scene.

References

Arnold, B. (2012), Premium headphone honchos jostle for your ears, *Cnet*, available online at <http://www.cnet.com/uk/news/premium-headphone-honchos-jostle-for-your-ears/>, accessed on 26th October 2014.

Bohn, D. (2012), Monster will no longer make Beats headphones, *The Verge*, available online at <http://www.theverge.com/2012/1/12/2703437/monster-will-no-longer-make-beats-headphones>, accessed on 26th October 2014.

Brown, S. (2014), *The controversial story of Beats headphones, and how things got to this point*, available online at <http://www.digitlafro.com/the-controversial-story-of-beats-headphones-and-how-things-got-to-this-point/>, accessed on 26th October 2014.

Garrahan, M. (2013), Dr Dre beats new paths in music, *Financial Times*, available online at <http://www.ft.com/cms/s/2/70a003d4-5bd7-11e2-bf31-00144feab49a.html#axzz3HGNO3JD8>, accessed on 26th October 2014.

Grundy, T. (2006), Rethinking and reinventing Michael Porter's five forces model, *Strategic Change*, 15(5), pp. 213-229.

Kujundzic, P. (2013), The pulse of beats-A conversation with Dr. Dre and Luke Wood, *HypeTrak*, available online at <http://hypetrak.com/2013/08/a-conversation-with-dr-dre-luke-wood/>, accessed on 26th October 2014.

Leopold, T. (2014), How Beats headphones changed the audio world, *CNN*, available online at <http://theatlantavoices.com/news/2014/jan/13/how-beats-headphones-changed-audio-world/>, accessed on 26th October 2014.

NPD Group. (2014), Premium US headphone market surpasses \$1 billion in 2013, according to NPD, *PR Web*, available online at <http://www.prweb.com/releases/2014/03/prweb11632871.htm>, accessed on 26th October 2014.

Porter, E. M. (1980), *Competitive strategy*, New York: The Free Press/Macmillan.

Webster Jr, F. E. (1988), The rediscovery of the marketing concept, *Business horizons*, 31(3), pp. 29-39.