

**UNIVERSITY OF KWA-ZULU NATAL (DURBAN)**

**ANALYSIS OF THE LEATHER INDUSTRY FOR SUCCESSFUL MARKETING OF  
DS LEATHERS  
BY**

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**CONFIDENTIALITY CLAUSE**

**Date 2006**

**TO WHOM IT MAY CONCERN**

**RE: CONFIDENTIALITY CLAUSE**

Due to the strategic importance of this research it would be appreciated if the contents remain confidential and not be circulated for a period of five years.

Sincerely



S. Somi

## DECLARATION

This research has not been previously accepted for any degree and is not being currently considered for any other degree at any other university.  
I declare that this Dissertation contains my own work except where specifically acknowledged

Student Name and Number

Signed..........

Date..... 30 December 2006 .....

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## **ABSTRACT**

DS Leathers, a leather manufacturing venture is faced with a challenge of penetrating the highly competitive leather industry. This study attempts to investigate what it will take for DS leathers to succeed, how can DS Leathers become more effective than its competitors in creating, delivering and communicating customer value? The study investigates the needs of DS Leathers prospective customers, analyzes the leather industry dynamics, key success factors and DS Leathers resources. A customer-focused company first investigates what its potential customer's desires are, and then builds the product or service. It was therefore pertinent for DS Leathers to pursue this exercise in order to be able to make informed strategic marketing decisions.

The study lays a foundation and a framework for DS Leathers marketing management by reviewing a set of core concepts that are perceived as being fundamental to creation solid foundation for successful marketing. Concepts discussed include the development of marketing strategies and plans, capturing marketing insights, connecting with customers, building with strong brands, shaping market offering, delivering value, communicating value and creating long-term growth. The findings are that the industry is highly competitive with a lot of global players. It is recommended that DS Leathers should focus on footwear and furniture segments, initially supplying the local government whilst developing its skills and its brand. The conclusion reached is that DS Leathers can achieve success by investing towards its attitudinal resources and superior skills, developing them into distinctive competencies for delivery of superior value.

# Chapter 1

## 1.1 Introduction

An organization's long-term success is often as a result of marketing ability. The bottom line exists as a result of the top line, yet marketing excellence is seldom achieved. Good marketing is not an accident but as a result of careful planning and execution. The marketing concept holds that the key to achieving organizational success consists of the company being more effective than competitors in creating, communicating and delivering superior customer value to its chosen target markets. Organizations that will thrive in this century are therefore those that will seek more than anything else, a deep understanding of their customers in order to apply that knowledge and convert it into product attributes and benefits that are valued and appreciated by customers. (Kotler & Keller, 2007).

This study is based on newly formed entity called DS Leathers (Pty) Ltd which will be referred to as DS Leathers. DS Leathers intended core business is manufacturing leather. DS Leathers is faced with a challenge of penetrating the highly competitive leather manufacturing market. In order to build a competitive advantage and achieve organizational goals and objectives, DS Leathers requires a plan that is, a comprehensive framework that will define all activities necessary for successful marketing of unique products that are appreciated by their customers. The study attempts to analyze the Leather industry, seeking to understand industry dynamics, the needs and wants of prospective customers in order to make informed strategic decisions.

## 1.2 Background

According to the International Leather Trade forum (ILT), leather is one of the world's most widely traded commodities. The ILT adds that African leather sector has enormous potential; yet Africa shows only a modest increase. Seizing global market opportunities is a key challenge for the African sector.

([http://www.tradeforum.org/news/fullstory.php/aid/783/African\\_Leather\\_Industry\\_Meets\\_World\\_Markets.html](http://www.tradeforum.org/news/fullstory.php/aid/783/African_Leather_Industry_Meets_World_Markets.html)).

DS Leathers is a new business venture that was motivated by the innovation in the science and art of leather making supported by the huge commercial potential that the leather products and other by-products of leather. The primary objective of the business is to manufacture leather and potentially leather products as well.

DS leathers established that the leather industry in South Africa enjoys active demand in foreign markets as well as domestic markets. Besides being a prospective source of foreign exchange earnings, the industry provides an important means for diversification within the leather industry by allowing conversion of domestically produced leather into higher value added leather goods. There has been growth in imported leathers from Brazil, China, India, and Pakistan which have replaced once thriving export leather market to a thriving import market. DS Leather's vision is to reverse the trend through innovative manufacturing. DS leathers therefore have to find a way of differentiating its

brand through developing distinctive competencies that will earn them a competitive advantage.

### **1.3 Motivation**

In a free enterprise economy, the market acts as the engine of an ecological system where "fit" organizations survive, and where the "unfit" do not. For years, scholars and entrepreneurs have searched for a checklist that, if followed, will ensure that a venture survives and prospers. As of this writing however, no master list has been found. Yet some ventures still succeed, while others fail. This phenomenon suggests that there may be systematic differences between the ventures that the market "selects for," and those ventures that the market "selects against." This study also seeks to develop a marketing framework that will minimize the probability of DS Leathers venture failure that pertain to marketing and develop a marketing framework that will dramatically improve the probability of the venture's success.

### **1.4 The Value**

Facts established from this study will be used as the guiding force behind strategic marketing decisions. Market information serves as a focal point of business activity which operates as a compass for navigating through turbulent competitive oceans. The success of DS Leathers would not only alleviate poverty in the Eastern Cape but it would ensure sustainability of tanneries as well as earn South African foreign exchange income. The supply chain begins with animal husbandry, the lifeblood of many rural communities

and also it is a labour intensive industry therefore leather industry is an important source of employment across the patchwork of its pan-continental supply chain.

### **1.5 Problem statement**

What marketing measures does DS Leathers have to take in order to be more effective than its competitors as well as create, communicate and deliver superior value to its customers?

### **1.6 Objectives**

1. Investigate industry dynamics.
2. Investigate customer needs and wants and possible gaps.
3. Establish which segments DS Leathers should pursue.
4. Develop a framework for DS Leathers marketing management
5. Establish DS Leathers distinctive competencies and positional advantage.

### **1.7 Limitations**

The exploratory nature of the study limits study variables to secondary sources and to the author's interpretations. Although DS Leathers expressed an interest on overseas markets the interviews will be limited to South African based candidates due to time and financial constraints. Another limitation is that within the automotives industry, decisions such as

procurement of leather are made in Germany and hence one could not get much information about quantities used and prices. Since DS Leathers is a new business venture there is not much information regarding the business except the information on the company's business case documents as well as business proposals prepared for funders.

This study will also only be limited to obtaining product related information from prospective customers for the purposes of ensuring market orientation of products and development of the significant components of marketing value chain , it will however not be extended to the actual product development process, the literature review will therefore have the same limits.

## **1.8 Structure of the document**

### **1.8.1 Chapter One**

This is an introductory chapter that gives a background of DS Leathers problem that calls for this study. The methodology outlined favours an exploratory stance. The problem statement and objectives are discussed. The motivation, value and limitations are given.

### **1.8.2 Chapter Two**

This chapter focuses on theories that formulate those scientific and systematic principles behind decisions made by marketers throughout the marketing value chain; discusses concepts, tools and marketing practices that are perceived to increase the chances of

marketing success. The theories discussed will be used as framework and benchmark for marketing management and analysis of the leather industry.

The chapter focused on eight key concepts that are considered to be the foundation of marketing management and holistic marketing orientation that translate to marketing tasks such as, development of marketing strategies and plans, capturing marketing insights, connecting with customers, building with strong brands, shaping market offering, delivering value, communication value and creating long- term growth.

### **1.8.3Chapter Three**

Chapter three is the research methodology. This study adopts an exploratory and a qualitative emphasis. Exploration is useful when there is no definite clarity of the problem being dealt with. To gain a better understanding of the problem, a qualitative study undertakes interviewing specialists and management and a case study to evaluate historical information, government documents and opinions or public records, report (Cooper & Schindler, 2003). DS Leathers management will be interviewed as well prospective clients from various leather processing industries such as furniture, leather manufacturing companies, German car manufacturers and car leather aftermarket suppliers.

A case analysis is developed in chapter four using secondary data statistics derived from various reports on the leathers manufacturing industry and various proposals and DS Leathers business plans.

Theoretical framework selected in chapter two will be used to analyze the case analysis for strategic options and choice.

#### **1.8.4 Chapter Four**

This chapter provides a case analysis for DS Leathers by focusing on the leather manufacturing industry, the industry in which DS Leathers will conduct its business. Thereafter the industry is profiled using a profiling technique used by Thompson et al (2003). Key success factors are determined. This provides a basis for the understanding of competitor strength and success determinants. The second part of this chapter introduces DS Leathers and provides a short synopsis on their management intentions and business plans.

#### **1.8.5 Chapter Five**

The chapter analyses the leather manufacturing market place. The theoretical model developed in chapter two is used to strategically analyze the case study in chapter four. The analysis is intended to establish the key success factors in the industry, establish gaps

or unsatisfied needs, identified the most relevant profitable segments.

## **1.8.6 Chapter Six**

This chapter draws conclusions, and recommendations are made.

## **1.9 Summary**

The research proposal is an organized enquiry carried out to provide information for solving problems. DS Leathers intends breaking into to the competitive leather industry. The author of this study has been tasked to investigate the marketplace. The study is intended to establish the relevant market, their needs and their desires and their availability.

The theoretical framework selected is used to analyze the leather product, the industry and DS Leathers as a leather manufacturing company given its resources and environment. The framework is intended to establish product attributes that can bring-about a competitive advantage for DS Leathers, identify a manner in which DS Leathers can articulate its product benefits, in a manner that they can occupy a unique, valuable, memorable position in the customer's mind and identify relevant profitable segments. .

The research methodology adopts an exploratory emphasis due to the lack of clarity of problems. By the method of case analysis and interviews the problems will be assessed to enable strategic analysis. The research objectives expressed is to investigate the leather

industry marketplace.

The motivation offered for this study was to establish consumer wants and needs, competition nature and relevant market dynamics. The value offered is expressed to identify relevant market information that will inform positioning, market definition and marketing strategy which is imperative for the success of DS Leathers. The structure of the study illustrated that chapter two reviews theory to outline theoretical framework to analyze case analysis in chapter four, Chapter three is the research methodology. . Chapter five is intended for case analysis to juxtapose against theoretical framework to asses Leather industry marketplace. Conclusions and recommendations are expressed in Chapter six.

## Chapter Two - Marketing Management in Context

### 2.1 Introduction

In a free enterprise economy, the market acts as the engine of an ecological system where "fit" organizations survive, and where the "unfit" do not. For years, scholars and entrepreneurs have tried to find a checklist that, if adhered to, will ensure that a venture survives and prospers. Yet some ventures still succeed, while others fail. Marketing is cited to have been Achilles' heel as well as tricky for many formerly prosperous companies. Marketing excellence is not accidentally achieved but is as a result of careful planning and execution (Keller & Kotler, 2007). This chapter lays a foundation for the study by discussing important marketing concepts, tools and frameworks that will define and describe all activities necessary for successful marketing of unique products that are appreciated by their customers.

This chapter focuses on theories that formulate those scientific and systematic principles behind decisions made by marketers throughout the marketing value chain; it covers most of the theories that pertain to successful development, creation and marketing of superior and value adding products. Keller and Kotler (2007) depict a set eight concepts that they consider to be the foundation of marketing management and holistic marketing orientation that translate to marketing tasks such as, development of marketing strategies and plans, capturing marketing insights, connecting with customers, building strong brands, shaping market offering, delivering value, communicating value and creating

long- term growth.

The structure of this chapter follows the above mentioned concepts in the sequence that they have been listed, some of the concepts overlap as they are relevant in more than one subheading. Holistic Marketing Concept is discussed as the last concept as it offers a more complete comprehensive approach that goes beyond application of the marketing concept. It recognizes the breadth interdependence of all marketing processes, programs and activities and attempts to reconcile scope and complexities of marketing activities.

## **2.2 Development of Marketing Strategies and Plans**

As mentioned above marketing success is not accidentally achieved, it demands careful planning therefore it requires a strategy, that is, a long term plan of action designed to achieve a particular goal such as winning. Marketing strategy is most likely to be effective when it is an integral component of corporate strategy, describing how the organization will engage customers, prospects and competitors in the market arena for success. It is partially a consequence of the broader corporate strategies, corporate missions, and corporate goals. It should cascade down from the firm's mission statement. A strategy comprises of well thought out series of tactics. While it is possible to write a tactical marketing plan without a sound, well-considered strategy, it is not condoned. Without a sound marketing strategy, a marketing plan has no foundation.

(<http://en.wikipedia.org/wiki/Marketing>).

A marketing plan contains a set of specific actions necessary to successfully execute a

marketing strategy. An effective marketing strategy should integrate an organization's marketing goals, policies, and action sequences into a cohesive whole. Many companies cascade a strategy throughout an organization, by creating strategy tactics that then become strategy goals for the next level or group ([http://en.wikipedia.org/wiki/Marketing\\_strategies](http://en.wikipedia.org/wiki/Marketing_strategies)).

## **2.3 Internal Analysis**

The first task that an organization should pursue towards developing marketing strategies and marketing plans is to identify the organization's potential long-run opportunities, in light of its market experience and core competencies. A realistic analysis of the internal resources is one of the key features of successful strategy planning. The new perspective on understanding strategic success is based on how well the organization uses its internal resources – the resource based view (Pearce & Robison, 2003). Montgomery (1995) also supports this view, he asserts that the internal asserts and capabilities determine how efficiently and effectively a company performs its functional activity.

### **2.3.1 Resource based View (RBV)**

Resources are the source of the firm's capabilities which in turn are the source of core competencies that forms basis of strategic advantage (Pearce & Robinson, 200). Hence resources become the building blocks for strategic advantage.

Pearson and Robinson(2003) explain that the RBV assists in making the core competency

concept more focused and measurable- creating a more meaningful internal analysis. Central to the assessment of the RBV is the examination of the basic types of resources essential for distinctive competencies. Along with Lynch (2000), Pearce and Robinson (2003) divide the resources into three broad categories.

1. Tangible resources, which are assets that are easiest to identify and are generally reflected on the balance sheet, they are inclusive of real estate, finances and resources.
2. Intangible resources, these are harder to define such as technical knowledge and accumulated experience.
3. Organizational capabilities, these are more specific skills and the ability to combine assets, people and processes that enable transforming inputs into outputs.

The intention is not to isolate resources, but also to assess which of these resources represent strengths and weaknesses and which generate core competencies that are sources of sustained positioning. The RBV sets forth some guidelines that help determine what constitutes a valuable resource, capability or core competence (Pearce & Robinson, 2003).

1. **Competitive superiority** – Does the organization's resources help fulfil the clients needs better than those outsourced agents?
2. **Resource scarcity** – Is the resource in short in short supply? The more rare the resources the more distinct it is for strategic advantage.

3. **Inimitability:** Is the resource easily copied or acquired?
4. **Appropriability** – Who actually gets the profit created by the resource?
5. **Durability** – How rapidly can the resource depreciate?
6. **Sustainability** – Are other alternative resources available?

A checklist of skills and assets is presented in table 2.2.1

Research and Development (Innovation)	Production (Manufacturing)	Finance	Organization (Management)	Marketing Skills	Relations with External entities
<i>Technical Resources</i> Technological capability Patents Key people Financial Resources Internally generated or government supplied	<i>Cost Structure</i> Experience Process Efficiency Scale economies Access to Raw Materials Product Quality Flexibility Workforce Attitudes and Motivation Capacity	<i>Access to capital</i> from operations from Parent from net short- term assets Ability to use both debt and equity	<i>Organizational</i> Synergies Key people Loyalty Knowledge Of business Quality planning process Speed of response Culture Entrepreneurial thrust	<i>Customer Orientation</i> New product development Marketing Research Reputation Brand-name quality Advertising Sales Force Customer service Product line breadth	<i>Customers</i> loyalty Retailers Distributors Banks Political figures

Table 2.1 Checklist of Skills and Assets

Source: Rao & Steckel (1998), p. 272

### 2.3.2 Strategy options

A company's competitive advantage derives from its ability to assemble and exploit an appropriate combination of resources. Based on the resources at hand, if a firm is to attain a competitive advantage, it must make a choice about the type of competitive advantage it seeks to attain and the scope within which it will attain it. Being "all things to all people" is a recipe for strategic mediocrity and below-average performance (Porter, 2003). Firms achieve such returns either by making themselves more appealing to customers or by producing at a lower cost whilst not making themselves less appealing to customers. The process is called search for a competitive advantage Rao (1998).

Rao (1998) also refers to Day Wensley who argues that when authors talk about competitive advantage they imply one or two things. They either use the term as a synonym of 'distinctive competence' referring to specific skills and tangible and concrete resources such as money, superior technology, patents, personnel to attitudinal such as how the company serves and relates to its customers and employees. The term is also used referring to positional superiority, where it means a firm is providing its customers with superior value or attaining lower costs. A complete view requires both perspectives. In pursuit of competitive advantage businesses are charged with developing certain skills and resources that allow them to better achieve chosen goals and objectives.

### 2.3.3 Elements of Competitive Advantage

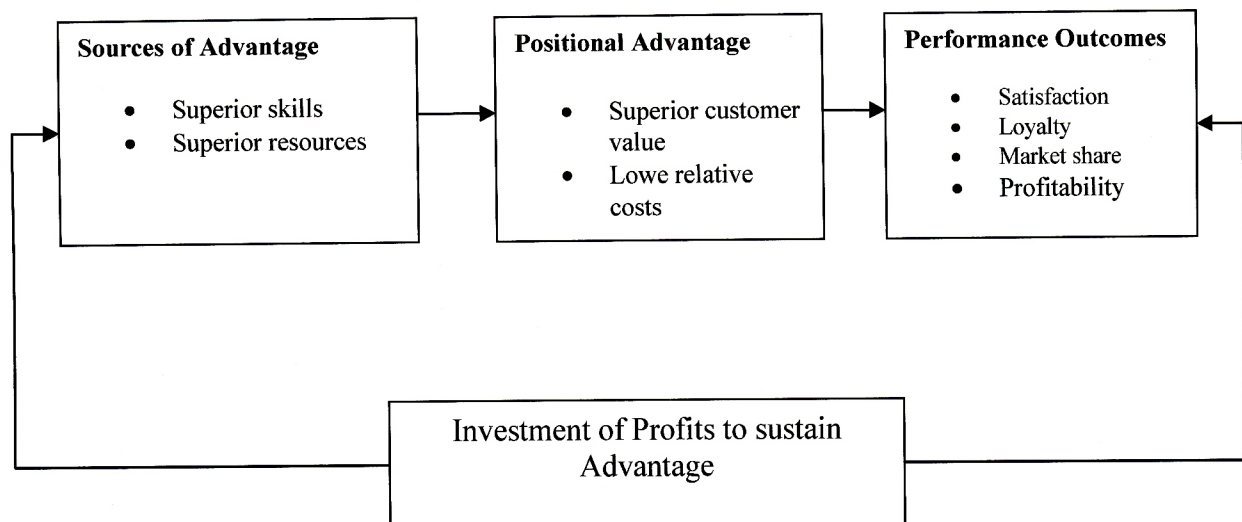


Figure 2.1 Elements of Competitive Advantage

Source: Rao & Steckel (1998), p. 270

As illustrated on figure 2.2.2, profits attained from the competitive advantage should be reinvested to sustain or to improve competitive advantage as competition is always striving to outperform its succeeding rivals.

Michael Porter (1985) described a category scheme consisting of three general types of strategies that are commonly used by businesses such as cost leadership, differentiation and segmentation. Porter argues that being 'all things to all people' is a recipe for strategic mediocrity and below average performance, because it often means a firm has no competitive advantage at all (Porter, 1991 quoted on David P. Lindahl & William B. Beyers, 1

**Cost Leadership Strategy**, the core of this strategy is efficiency. By producing high volumes of standardized products, the firm leverages on economies of scale and experience curve advantages. The product is often a basic, no-frills product that is produced at a relatively low cost. Sustaining this strategy calls for a continuous search for cost reductions in all aspects of the business. **Differentiation Strategy** entails creating a product that is perceived as unique. The unique features or benefits should provide superior value for the customer. Because customers see the product as unrivaled and unequaled, the price elasticity of demand tends to be reduced and customers tend to be more loyal to the brand (Porter, 1980). **Segmentation Strategy**, in this strategy the firm pays attention to a select few. This is also known as a focus or niche strategy. According to Porter (1980), the rationale behind is that by focusing your marketing efforts on one or two narrow market segments and customizing your marketing mix for these specialized markets, you can better satisfy the needs of that target market. The firm specifically looks to gain a competitive advantage through effectiveness rather than efficiency.

## 2.4 Capturing Marketing Insights

Organizational success heavily relies on the understanding of what is happening inside as well as outside the organization by monitoring the marketing environment and conducting research to assess buyer needs and behaviour as well as the actual and potential market size. There is a number of other factors that impact on a company's marketing strategy that represent the external environment and these factors are graphically presented below:

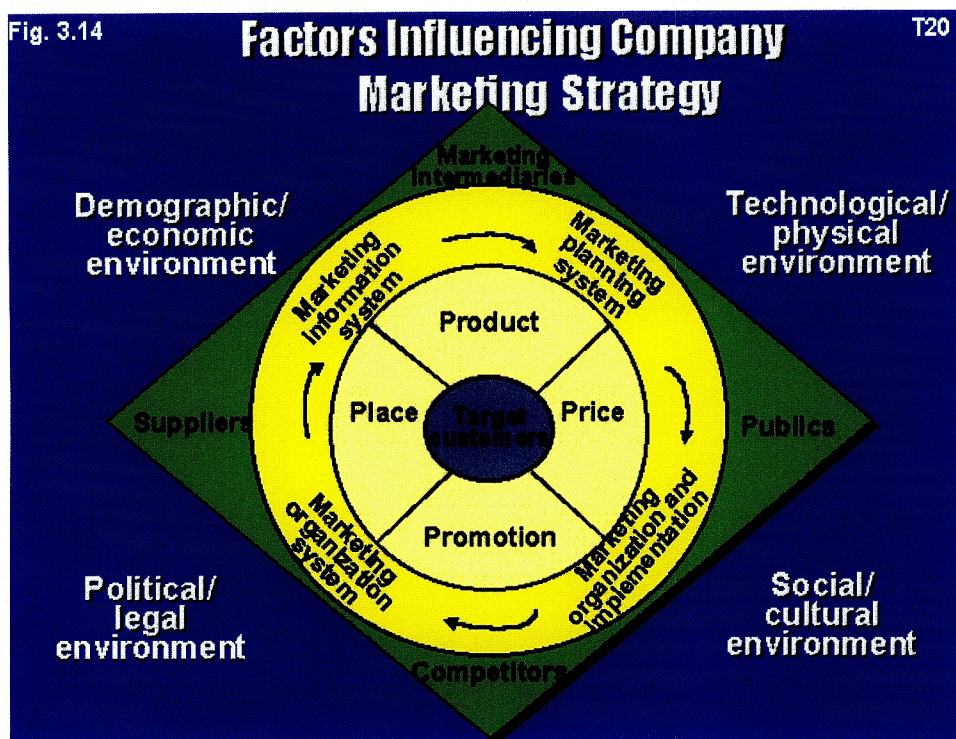


Figure 2.2 Factors influencing company marketing strategy

Source: Kelly & Kotler, 2007 p.16

### **2.4.1 Marketing Environment**

Marketing environment consists of the task environment and broad environment. Task environment includes immediate actors involved in producing, distributing and promoting the offering, such as supplier's distributors, dealers and target customers. The broad environment entails six components such as demographic environment, economic environment, physical environment, technological environment, political-legal environment and socio-cultural environment. Competition is yet another component of the broad environment, together all these exert force on the task organization and marketers have to factor them in when developing marketing strategies. (Keller & Kotler, 2007).

Pearce and Robinson (2003), explore the broad environment which they term remote environment using STEEP (Social, Technological, Economic, Ecological and Political) factors.

- a) Social factors - investigates the more salient influences in society, beliefs, values, attitudes, opinions, and lifestyles in external environment. As social attitudes change or evolve, then society's needs or demands may change accordingly.
- b) Technological factors- refer to creative use of technology as a backbone to modern innovation, given changing external (broad) environment. To avoid obscene and promote innovation, an organization must be aware of technological changes that might influence the organization. The organization needs to take cognizance of both existing technologies

and future technologies if it were to stand the test of time.

c) Economic factors – concern the nature and direction of the economy in which the organization operates. Very often, especially in government organizations, economic factors largely influence operations, planning and the actual functioning of the organizations.

d) Ecological factors - Whilst scanning the ecological environment is important for all organizations, it is especially important for the organization that inherits social responsibility to positively influence ecological relationships.

e) Political factors - define the legal and regulatory parameters within which firms must operate. Quick and effective response to political factors is paramount to ensure the continued operations and existence of the organizations.

Professor Michael Porter of Harvard Business School has convincingly demonstrated that the state of competition in an industry is a composite of five competitive forces (Thompson & Strickland, 2003). The five forces model is a powerful tool for systematically diagnosing the principal competitive and assessing how one is (Thompson & Strickland, 2003). The model is relatively easy to use and apply and also one of the most used techniques of competitive analysis.

The collective strength of the five forces determines the profit potential, defined as the long-run return on invested capital, of the industry (Sims & Smith, 2004). Some industries have inherently high profit potential due to weakness of these forces whilst other industries, where the collective forces are strong, will exhibit low returns on investment. Porter's Five Forces

framework uses concepts developed in Industrial Organization economics to derive five forces that determine the competitive intensity and therefore attractiveness of a market, the forces are graphically presented in figure 2.3.2 below:

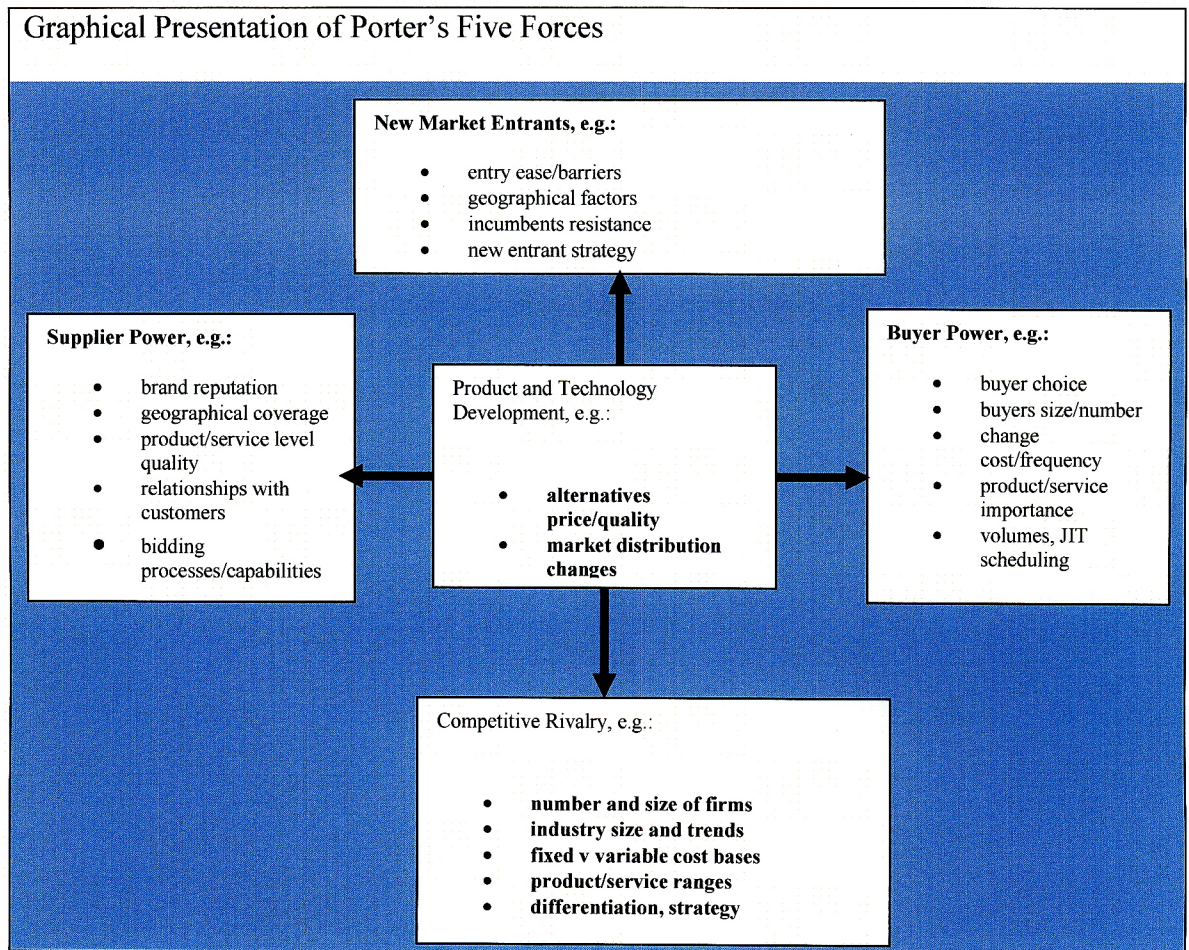


Figure 2.3 Porter's Five Forces

Source: <http://www.businessballs.com/portersfiveforcesdiagram.pdf>

## 2.4.2 Industry Dominant factors

Due to the fact that industries differ significantly in their basic characters and structure, industry and competitor analysis begins with an overview of the industry and competitor analysis (Thompson et al., 2003). Although it is the largest strategic concept defined in this literature review, it is normally the preceding activity when undertaking an industry analysis.

A pre-requisite to analyzing an industry, it is to gain an understanding of mechanisms that underpin the operation of such industry. For example a capital intensive industry would try to maximize revenue per rand of fixed capital investment made (Walsh, 1996), whilst other not so capital intensive industries would rather optimize revenues possibly in the production costs after a certain level of output has been surpassed.

Thompson et al, (2003) have identified the following factors to be considered when profiling the industry.

- Market size
- Scope of competitive rivalry (local, regional, international, national or global)
- Market growth rate and position in the business life cycle (early development, rapid growth and takeoff, early maturity, maturity, saturation, stagnation and decline)
- Number of rivals and their relative size is the industry fragmented into many small competitors concentrated and dominated by a few large companies
- Number of buyers and their relative sizes

- Whether and to what extent industry rivals have integrated backward or forward
- The types of distribution channels used to access consumers
- The pace of technological change in both production processes innovation and new product introductions.
- Whether the products and services of rival firms are highly or weakly differentiated, or essentially identical.
- Whether companies can realize economies of scale in purchasing, manufacturing, transportation, marketing or advertising.
- Whether the industry participants are clustered in a particular location.
- Whether industry activities are characterized by strong learning and experience effects (learning by doing such that unit costs decline and cumulative output grows.
- Whether high rates of capacity utilization are crucial to achieving low-cost production efficiency.
- Whether the industry profitability is above or below par.

### **2.4.3 SWOT Analysis**

SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis is a framework used for utilizing the information derived from situational analysis. It entails assessing both broad and task environments. This serving as a model is simple and easy to apply and provides direction serving as a catalyst for development of viable marketing plans. Its central role is structuring assessment of the fit between what the organization is or is not

capable of and the environmental conditions of the firm.

Pearce and Robinson (2003) assert SWOT is a very widely used technique through which managers create a quick of a company's strategic situation. It is based on the assumption that an effective strategy derives from model a sound 'fit' between an organization's internal resources(strengths and weaknesses) and its external situation (opportunities and threats)

#### **2.4.3.1 Strengths and Weaknesses**

Strengths and Weaknesses occur inside the firm or in major relationships between the firm and its customers or supply chain partners. Taking into account the fact that SWOT must be customer orientated to gain maximum benefit strength is relevant only when it is useful in satisfying customer needs. When this is the case the strength becomes a capability, marketers must develop strategies to leverage these capabilities in the form of strategic competitive advantage and also to develop strategies to overcome the firm's weaknesses.

#### **2.4.3.2 Opportunities and Threats**

In leveraging on capabilities to create competitive advantage managers have to be conscious of trends and situations in the internal environment. Opportunities and threats exist outside the firm independent of internal strengths and weaknesses or marketing

options.

#### **2.4.3.3 SWOT Analysis Matrix**

Ferrell et al (2002) demonstrates that a four cell array can be used to categorize information at the conclusion of SWOT analysis. Each cell of the matrix must be rated in order to match strengths to opportunities, convert weaknesses to strengths and threats to opportunities. Weaknesses and threats that cannot be changed should be avoided. Process begins by assessing the extent and importance of each element of the SWOT matrix. These ratings should ideally be based on customer's perceptions rather than those of the analyst. It is mandatory that the cells be assessed quantitatively as follows:

1. Quantify magnitude of each element within the matrix using a scale of 1 to 3 representing low, medium and high, with strengths and opportunities positive scores and weaknesses and threats having negative scores.
2. Rate the importance of each element in the matrix using a scale of 1 to 3, representing weak importance, average importance and major importance respectively.

Those elements with the highest numerical rankings should have the greatest influence in developing a marketing strategy. A sizable strength in an important area must certainly be emphasized in order to convert the capability for competitive advantage. Once SWOT matrix is done marketing managers should focus on developing a competitive advantage.

## **2.5 Connecting with Customers**

The essence of marketing is meeting and satisfying consumer's needs and wants better than rivals. Consumer behaviour is the study of how individuals and groups select, buy, use and dispose goods, services, ideas and experiences to satisfy their needs and desires. Practicing the holistic marketing orientation, marketers that have a clear understanding of consumers can more effectively market relevant products to the right consumers in a relevant way (Keller & Kotler, 2007).

The core characteristics of market orientated organizations is that they have strong commitment to satisfy the needs of their customers, they define quality in terms of customer satisfaction and they actively carryout research to detect any changes in customer tastes and needs. After all, commercial viability of any product rests on the hands of customers, factual customer information is pivotal in the development of marketing strategy. The marketing manager must examine the current and future situations with respect to customer firm's target market. In the process of analysis, information should be collected that identifies the firm's current and potential customers, the prevailing needs of customers and potential customers, the basic features of the firm's and competitor's products that are perceived as meeting customer's needs. A method recommended by Ferrell et al (2002) and Weinstein (1998) is a 5W Model: who, what, where, when and why? The model seeks to understand current and prospective customers, product usage, purchase places, time and reasons.

## **2.5 Building Strong Brands**

Brand has been called the most powerful idea in the commercial world, yet few companies consciously create brand identity. An effective brand can be the reason customers choose one product or company over another. It acts as a shorthand reminder of all the benefits, imagery, personality, and attributes of your offering (Temporal, 2004).

Successful branding therefore entails blending all these various elements together in a unique way, the product has to be or service has to be of high quality and appropriate to consumer needs, the brand name has to be appealing and in tune with the consumer's perception of the product, the packaging, promotion, pricing and all other elements similarly meet the test of appropriateness, appeal and differentiation (Keller, 2003).

Brands act as extension of the personality and the key to brand management and development is clear understanding of what benefits the customer is looking for. Time and time again, research shows that the real driving force behind market leadership is perceived value.

<http://www.sitecritique.net/magazine/articles/features/proia/branding.php>).

Building organizations with an inspirational mission to acquire and keep customers is a major objective for new successful organization. It is also pertinent that marketers understand that a company's advertising, promotion, logo design or other activities will not successfully build strong unless there are certain well- defined values which are consistently communicated and demonstrated by company which are recognized and appreciated by customers. All aspects of marketing and communications should reflect

the brand values and so should company employees demonstrate those values in their interaction with customers (Keller, 2003).

## **2.6 Shaping the market offering**

The product is the heart of marketing strategy. Anything offered in the marketplace to satisfy a want or a desire can be classified as a product. In abstract an offering consists of benefits of satisfaction provided to target markets by an organization. In order for marketing managers to fully understand appreciate customer needs, marketers must understand the product and its different attributes. A product is made up of tangible and intangible attributes such as packaging, quality, brand, service and the reputation of the seller. It is therefore imperative that marketing managers view a product from a market perspective rather than a physical view point (Berndt, Du Plessis, Jooste & Klopper 2000).

Marketers need to establish early in their product development process what they are targeting. To achieve success in product development the firm must establish the current customer needs and future needs of various segments. The objectives must include both the satisfaction of needs currently being met and identifying unmet needs. There are two sources of unmet needs. There are two broad sources of unmet needs such as manifestation of latent problems with the currently available offerings designed to solve a set of customer needs and general changes in the environment. In the end marketers should be able to sift the information obtained and convert it into attributes that can be incorporated into the product development process in order to create superior value

adding offering.

## **2.7 Pricing Strategy**

‘Whether or not is so recognized, pricing is one of the most crucial decision functions of marketing managers. According to one marketing authority, Pricing is an art; game played for high stakes, for marketing strategist is the moment of truth. All marketing comes to focus in pricing decision’ (Kerin & Peterson, 2001).

Jain (1999) points out four basic factors that a person who does the pricing has to take into account such as the pricing objective, cost, competition and demand. There are two main broad pricing objectives such as profit orientated pricing or pricing for volume of pricing. The profit orientated pricing can be based on net desired profit percentage or target return on investment. Volume orientated pricing can be defined as the percentage of market share that a firm would like to achieve. A firm has to do its pricing within the constraints posed by its pricing problems such as declining sales, higher or lower prices than competitors, excessive pressure to generate sales, imbalance in product line prices, distortion vis-à-vis the offering in the customer’s perceptions of the firms’ price and frequent changes in price without relationship to environmental realities. In the end a price must be high enough to earn an adequate margin for profit and reinvestment, low enough to discourage competitors from adding capacity for and lower than competition in order to gain market share. According to Jain (1999) pricing strategies for new products include skimming, penetration strategies. Skimming basically involves setting price high

for recovering setting up costs in anticipation of increased competition. Penetration strategy is entering the market with a lower price in order to gain market share. Pricing strategies for established products are maintaining, reducing or increasing the price.

## **2.8 Communication Value and Creating Long- term Growth**

Integrated communication entails disseminating information about the organization and its offering to selected segments. It is a long-term view of influencing customers through co-ordinated strategic use of elements available to marketing. Traditional promotion mix includes advertising, public relations, public selling and sales promotion. Given the beneficial role marketing communication plays in facilitating mutually beneficial exchange between organizations and prospective buyers its importance cannot be overstated.

Kerin and Peterson (2001) give six major decisions that have to be taken when formulating communication strategy:

- Information requirements as customers proceed through the purchase process.
- Objectives that communicating strategy must achieve.
- How the mix of communication activities should be combined to convey information to target markets.
- Budget and allocation of resources.
- Timing and scheduling of communication
- Evaluation or measurement of success of communication

## 2.9 Delivering Value

A good distribution network builds towards a strong competitive advantage of an organization. The channel of distribution is a network of value-chain organization whose function is to connect goods and services with end users. The distribution channel includes inter-dependant and interrelated institutions and agencies functioning as a system of networks. A number of value added services are required in moving products from producers to end-users (Cravens, 2000). Naras and Anderson (1999) see channel management as a value creating process of designing a set of marketing and distribution arrangements that fulfils the requirements and preferences of target markets through direct sales-forces and logistics systems. Recommended value delivery process is graphically presented in figure 2.2 below:

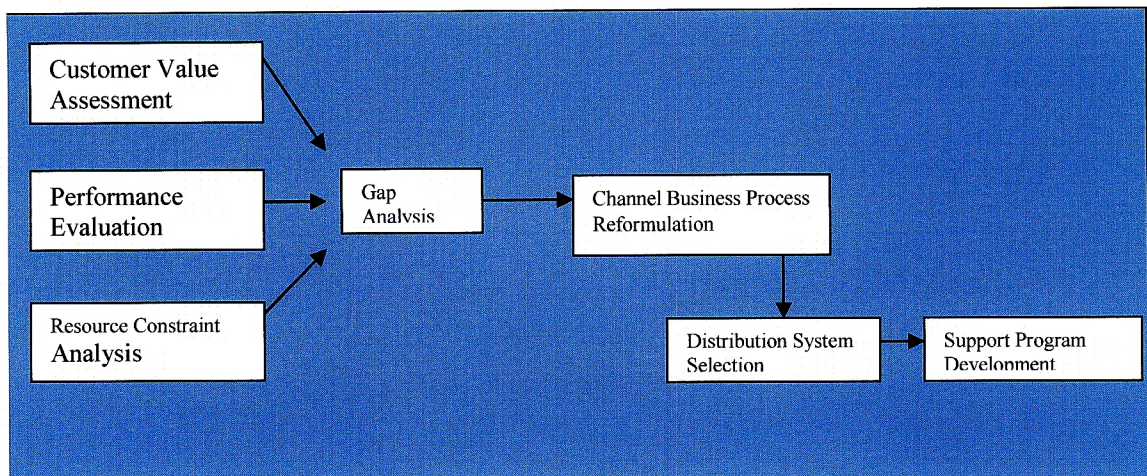


Figure 2.4 Customer Driven Distribution System Design

Source: Anderson & Narus (1999), p. 252

The above framework was designed by Stern and Sturdivant who argue that marketing managers should be customer driven when designing distribution channels (Anderson &

Narus, 1999). Managers should seek to design valuable, profitable systems with greatest value chains in terms of outputs to customers. They recommend that managers select channels following re-evaluation of relevant business processes and functions using the above framework. Marketing managers should ensure they are fully aware of the services their customer want and how much they are worth to customers. Marketers should also measure customer satisfaction in each target segment with each of supplier's service. The question of limits posed by company resources and competitive activities to channel activities must be asked as well. In the process marketing managers must also identify gaps in the service output of ideal; existing and management bounded distribution and address them accordingly (Rao and Steckel, 1998).

After establishing existing gaps, the firms need a radical process redesign.

Recommendations around rethinking business channels, processes and functions include thinking of channels as streams of competition. Japanese talk of keiretsus which are strategic alliances which focus on delivering high quality and relevant augmented services at the lowest total cost. To strategically reformulate the process, marketing managers ought to understand the value created by channels which was traditionally a facilitation of transactions, provision of access and augmenting market offering. The new technologies are now making new configurations which enable integrated logistics systems. It is also the duty of marketing managers to identify channel partners. With increased fragmentation, managers need to explore channels and establish which ones create maximum value. Marketing managers should also strike a balance in terms of coverage and marketing channels, that is, the number of channels per geographic area

should balance with the targeted market segments and alternative channels should match with requirements of targeted segments.

This framework is mainly for industrial customers but it can also be adapted and applied to deliver maximum value for consumer markets (Rao *et al*, 1998).

### **2.10 Holistic Marketing Concept**

The foundation of holistic marketing is development, design and implementation of marketing programs, as well as processes and activities and recognizes their scope and interdependency. The holistic marketing concept acknowledges that everything matters with marketing and that a broad integrated approach is necessary. Holistic marketing comprises of four components such as relationship marketing, integrated marketing, internal marketing and social responsibility. Holistic marketing tries to recognize and reconcile the scope and the complexities of marketing (Keller & Kotler, 2007).

The key objective of relationship marketing is to establish mutually fulfilling long- term relationships with the key parties such as customers, suppliers, distributors and other marketing partners in order to earn and sustain business. This involves investing in relevant relationships with relevant constituent groups. The key constituents are customers, employees, marketing partners and members of the financial community. The desired end result of marketing relationship is building a unique company asset known as a marketing network. Increasingly rivalry is not between companies but between marketing networks. ‘The operating principle is: Build an effective network of

relationships with key stakeholders and the profits will flow' (Keller & Kotler, 2007).

Integrated marketing aims at development of marketing activities and puts together programs that optimize the ability to create, communicate and deliver for consumers. The central themes for integrated marketing are that different marketing activities are used to communicate and deliver value and all marketing activities are co-ordinated to maximize their joint effects. Consequently, the development and execution of any marketing activity is done taking into account all other activities.

Holistic marketing incorporates internal marketing making sure that every member of the organization embraces relevant marketing principles, specifically senior management. Internal marketing is the task of hiring, training and motivating able employees who want to serve customers well. Internal marketing takes two levels such as various marketing functions such as sales force, advertising, customer service, product marketing and marketing research. The second level is other departments that must also think 'customer' in all they do. Lastly, holistic marketing embraces social responsibility marketing and understands broader concerns which have already been discussed under broad environment.

## **2.11 Summary**

The chapter began with an introduction to the framework that will be used as a benchmark for the DS Leathers marketing management. The framework consists of various marketing management concepts and theories that are deemed pertinent for successful marketing management, value creation, delivery and communication.

The chapter firstly looks at what developing effective marketing strategies and plans, entails taking into cognisance external and internal factors such internal resources and environmental factors. Swot analysis, STEEP analysis, Porter's five forces, Key success factors and Industry dominant factors framework is also developed. Various strategies for attaining competitive advantage are discussed.

The chapter also explores what is key to shaping a market offering as this is considered to be at the cornerstone of the strategy. No matter how well developed other marketing activities are if the product or offering does not bear attributes that are appreciated by customers the business would never succeed. Methods of delivering value, communicating value and creating long- term growth are also discussed. The study emphasizes the importance of developing strong brands, as surveys indicate that brand resilience can help organizations not only ride stormy weather but also brand leaders can return a margin six times that of closest competitors. Holistic marketing concept is the last concept covered in the chapter as it is perceived as an all encompassing concept and pivotal in terms of integrating all marketing activities.

## **Chapter Three - Research Methodology**

### **3.1 Introduction**

This study employs a scientific approach as the use of rationally grounded procedures is regarded as reliable and valid and it is what distinguishes scholarly and scientific inquiry from informal intuitive enquiry. This picture is intended to be scientific enough to enable this study to be used as a body of knowledge that can be used to make scientific deductions in the future. The intention of the study is that the methodology used is good enough to serve as a reference the future for understanding the leather industry marketplace, inform DS Leathers in management decisions as well as serve as a framework for developing future marketing strategies.

### **3.2 Scientific views**

The methodology of natural science is characterized by an objective view on the reality, which is made possible by simplicity and in doing repeated identical experiments. The future studies , which have similar research design to this one are supposed to come up with similar findings on what would possible give DS Leathers a competitive advantage in the leather industry unless there is a fundamental change in the industry.

Marketing is a social science that is characterized by a high degree of subjective decision-making process. Social sciences by their very nature make it difficult to conduct repeated and identical experiments. In addition to that, the difficulty to interpret human activities remains a challenge. It is to this end that quantitative methods have been fused together in

an attempt to draw meaning from the current market situation in the leather industry, establish possible gaps to ensure DS Leathers' most effective entrance as well as positioning securing them a competitive advantage.

### **3.4 Methodological choice**

#### **Qualitative Research Paradigm**

The study has been undertaken to investigate gaps in the needs of the prospective DS Leather products business customers as well as the marketplace. Prospective customers are leather products users in the automotives industry for manufacturing of leather car seats, manufactures of leather furniture such as leather couches as well as leather artwork and finally, manufactures of leather bags and footwear. The automotives companies interviewed include Audi, Ford and Aunde. In the furniture business Grafton Everest and Bakos brothers will be interviewed and Busby was interviewed in the shoes and bags business. Information reviewed and detail gathered is the same across all companies interviewed.

### **3.5 Justification of methodology**

This study adopts an exploratory nature or case study approach as the researcher does not have a clear understanding of the problems that will be encountered. The term case study pertains to the fact that there are a limited number of units of analysis. DS Leathers is studied extensively. DS Leather is a newly formed entity, it has not entered the marketplace yet so there is no existing customer base and they have the challenge of entering the market, therefore the investigation is rather broad. There is a need for the researcher to gain an understanding of the problems. Cooper and Schindler (2003) assert that in order to understand a problem a qualitative study undertakes interviewing specialists, management and case analysis to evaluate historical or contemporary information of public records, reports, government documents and opinions. This can be accomplished by expanding the understanding of management dilemma and looking for ways others used to address similar problems or gathering information on the topic at hand.

#### **3.5.1 Strengths**

In the last decade there has been a shift towards more qualitative paradigm in basic disciplines and applied fields such as Miles and Huberman (1994). According to Miles and Huberman (1994) the reason for this is that qualitative data is a source of well grounded, rich descriptions and explanations of processes in identifiable local contexts. Leedy and Ormond (2001) concur with this and add that the purpose of qualitative research is to answer questions about the complex nature of the phenomena, often with

the purpose of describing and understanding phenomena from participant's point of view. This is important in this particular study in which customer needs and their experiences with current suppliers can be best expressed by customers themselves.

Leedy and Ormond (2001) expand on the reasons for use of qualitative research which reinforce the choice of qualitative paradigm for this particular research|:

- a. The purpose of the research is to describe and explore
- b. The variables are unknown
- c. The research is context bound
- d. The sample is small
- e. In-depth, semi –structured interviews are to be used to collect data.

Falconer and Mackay (1999) developed the idea of qualitative research further and added that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret phenomena within that environment in terms of meanings people bring to them. These researchers feel that they can get closer to the subject's perspective through detailed interviewing and observation.

### 3.5.2 Weaknesses

Morse (1994) as well as Silverman (2000) state that 'qualitative research is unstructured. Bryman (1988) in Silverman (2000)'s view is that there is a tendency towards an anecdotal approach to the use of data in relation to conclusions or explanations in qualitative research. Both these issues were dealt with by trying to create a structure through questionnaires, and by considering all the aspects of the data, even ideas that appeared nonsensical.

Further draw-backs of qualitative data can include: labour intensiveness of data collection, processing and coding, frequent data overload; the possibility of researcher bias; inadequacy of sampling, generalisability of findings, credibility and quality of conclusions (Miles & Huberman 1994).

Creswell (1994) warns that there are certain variables that must be considered when conducting qualitative research as they could influence the data gathered and conclusions drawn from the data. These include:

- a. the relationship of the researcher to what which is researched
- b. the role of values is 'value – laden and biased'
- c. the nature of reality is that 'reality is subjective and multiple as seen by participants in a study'
- d. the language of the research is 'informal, evolving decisions , personal voice, and accepted qualitative words'

All of the above was considered and every effort was made by the researcher to be objective.

### **3.6 Population and Sample**

The population in this research is mainly business prospective customers, stakeholders that are directly involved in the procurement or buying of leather materials. This would include buyers, quality assurance managers and company creative.

The sample was selected from the above mentioned population which means non-probability sampling. Probability sampling allows the researcher to generalize results of the study from the sample to the population from which it was drawn (Merriam, 2001). However, generalization (in statistical sense is not generally a goal of qualitative research, therefore the 'probabilistic sampling is not necessary or even justifiable in qualitative research. Non- probability sampling is consequently usually chosen for qualitative research (Merriam, 2001). Therefore no attempt was made was made to select respondents randomly but the researcher did attempt to be objective in the selection of the respondents and interviewed the most relevant respondents.

Merriam (2001) adds that the most common form of non probabilistic sampling is purposive (Chein, 1981), purposeful or criterion based sampling whereby the investigator wants to discover , understand and gain insight and must therefore select respondents which the can most be learned from. The researcher therefore attempted to select

respondents across the four major relevant prospective customers of interest. Six respondents were interviewed. In this type of research the crucial factor is not the number of respondents but the potential of each person to contribute to the understanding of a phenomenon. (Merriam, 2001).

### **3.7 Data Collection**

Data was collected by means of person to person (Merriam, 2000), in depth semi-structured interviews which is the most common form of interview in qualitative research (Merriam, 2001). Cooper and Schindler (2003) assert that the greatest value of person to person interview lies in the fact that the depth of information that can be secured far exceeds the information that could be obtained from telephone or self administered study intercepts. They add that interviewer can also do more things to improve the quality of the information received than any other method. The semi-structured interview usually revolves around a few central questions (Leedy and Ormond, 2001). Silverman (2001) highlights six kinds of topics usually addressed in interview questions as mentioned in Selltitz et al (1964) such as facts, beliefs, feelings and motives, standards of action, present or past behavior and conscious reasons.

Silverman (2001) mentions that Cook and Selltitz (1964) see unstructured interviews as 'inherently unreliable instruments'. However they do concede that 'Unstructured open ended interviews are more flexible than prescheduled interviews and can allow more intensive study of perceptions and feelings'. This was especially useful with regards to respondents who had specialist knowledge of a particular area relating to the research

question. Qualitative research ‘allows the researcher to adapt to unforeseen events and change direction in pursuit of meaning’ (Merriam 2001). This was also found to assist in formation of a complete picture.

Merriam mentions the need for the researcher to be ‘sensitive’ in interviews which involve a keen sense of timing referring to knowing when to listen and when to change the direction of the interview. A good communicator empathizes with respondents, establishes rapport, asks questions and listens intently.

However Silverman (2001) points out that Hammersley and Atkinson (1983) see it as being somewhat naïve not to see the potential social control created by open-ended or non –directive interviewing. This is due to the minimal questions being asked thereby causing the interviewee to misunderstand the focus of the interview and to be less talkative. The researcher will attempt to minimize the possibility of the above occurring by explaining the focus of the interview at the very beginning of each interview.

Interviews will be conducted mostly at the respondent’s site, in order to provide respondents with ease of access to any materials that they felt presented a relevant contribution to the interview. In addition, a better understanding of the context and frame of reference was gained by the researcher. To ensure accuracy, notes will be taken during each interview to capture important points that will emerge.

### **3.8 Data Analysis**

Rudestam and Newton (2003) argue that although there are some sources such as Miles and Huberman (1994) that offer specific guidelines on how to conduct and report qualitative data analysis there is no clear agreement in the literature and students use variety of formats and approaches. They further assert that qualitative studies always have a potential to produce large quantities that represent words and ideas rather than numbers and statistics. Silverman (2000) refers to Wilcott (1990) who states that ‘the critical task in qualitative research is not to accumulate all data you can’, but to get rid of most data you accumulate. This requires winnowing.

For most qualitative researchers the process begins by reading in its entirety all the information that has been collected and summarizing it. Due to the tendency of overwhelming scope and quantity this requires reduction of the data by developing categories of codes for sorting and refining them(Rudestam & Newton, 2001 ).The data analysis process can also involve descriptive accounts , category construction and theory building(Merriam,2000). The descriptive account is quite a basic description of research with category construction requiring more effort. The more challenging part is to construct themes and categories that capture some recurring pattern that cuts across ‘the preponderance’ (Taylor and Bogdan, 1984 of the data Merriam, 2001). The first step category construction is to make observations, queries or comments in the margins of the interview notes and then go back and review these to see which seem to go together. Categories are then named and should ‘reflect the purpose of the research’

With the above the above in mind, the following framework was used in order to analyze the data (Leedy & Ormrod, 2001)

1. The data was viewed in order to get sense of data in its entirety,
2. Comments were made in margins of interview notes,
3. The data was entered into a computer database,
4. The data was then reduced to categories and coded(Creswell,1994)
5. The data was then integrated and synthesized.

### **3.9 Validity and Reliability**

#### **3.9.1 External Validity**

External validity refers to ‘the extent to which the results apply to situations beyond the study itself’ (Leedy & Ormrod, 2001). This would require the use of a random and representative sample. However, within the qualitative paradigm, the sample is convenient in nature. The intention here is to interpret the event from a unique perspective. Yet, there are findings within the research that are transferable to any other leather manufacturer in a similar context and position.

### **3.9.2 Internal Validity**

According to Rudestam and Newton (2001) internal validity concerns the validity of casual inference. They add that in naturalistic inquiry credibility or truth is ensured through structural corroboration. This was achieved in this particular study through spending sufficient time with subjects to lookout for distortions, persistent observation and looking at multiple sources of data such as written records. The conversations were voice recorded.

### **3.10 Reliability**

Reliability is the extent to which similar research conducted in the future will result in similar outcomes (Leedy & Ormond, 2001). Considering the fact that the marketplace is very dynamic and customer needs constantly change, the reliability of the study is likely to be limited. However if all things are constant and the context is the same, it is quite possible that similar future research would yield the same results.

## **Chapter Four – Introduction to the Leather Industry and DS Leathers**

### **4.1 Introduction**

As clearly articulated in chapter two under industry and internal analysis section, a sound understanding of both the industry as well as the organization is pivotal towards strategy development, this chapter gives a detailed background of both the Leather industry and DS Leathers as an organization. The main objective of this chapter is to present raw information collected from various secondary sources such as Leather journals, DS Leathers business case documents and DS Leathers research reports to build a case study for analysis. This information will then be juxtaposed with the framework developed in chapter two for the purpose of analyzing the Leather industry, DS leathers, prospective customers and competitors.

### **4.2 Industry overview**

According to the International Leather Trade forum (ITC), leather is one of the world's most widely traded commodities. The ITC adds that African leather sector has enormous potential, but there is a wide gap between resources and production. Trade in hides and skins, and semi-processed, tanned leather goods are lucrative business. This is particularly the case for some developing countries where the dynamism of the sector has led to a move up the value-added chain and strong market positions. As a result, developing countries hold a 45% share of world trade in leather manufactures. Many have substantially increased their share of world footwear production in relation to

developed countries. Yet Africa shows only a modest increase. Import penetration of the domestic leather footwear markets by other developing countries is an estimated 73%. Leather and leather products generally account for less than 4% of total exports. The numbers tell the story: African countries have 15% of the world's cattle and 25% of it are sheep and goats, but produce only 14.9% of global output of hides and skins 8% of bovine hides and 14% of sheep and goats skins.

<http://www.africaleather.com/cdeleatherprogramme/profiles-ov.htm>).

Seizing global market opportunities is a key challenge for the African sector. There are important steps that were taken over the past seven years starting in 1990 in terms of laying a foundation, the cornerstone of which is African partnership. Leather is a leading export for many African countries. The gap between resources and production is wide, but exposes the potential of the industry. Reducing the gap is critical in this important sector, which is strategic for economic and industrial development. By boosting exports, the entire continent stands to benefit. Because leather is a by-product of the meat industry, the supply chain begins with animal husbandry, the lifeblood of many rural communities. Successful development of the sector could help reduce poverty in rural areas. As a labour-intensive industry, it is an important source of employment across the patchwork of its pan-continental supply chain. Because of the backward and forward linkages in the chain, Africa can be both a source of raw materials and an exporter of finished leather goods (<http://www.intracen.org/leatherline>).

The total market for the South African leather product is estimated at US\$5.7 billion (White, 2005). DS Leathers is looking at capturing 4% of the local market over a period of 5 years. DS Leathers will aggressively tackle the international market with a view to allocating at least 70% of production to export markets over the same period. A growth of about 10% per annum is thereafter anticipated.

#### **4.2.1 Leather Industry's Contribution towards Trade and Employment**

The number of people employed in the tanning industry worldwide is estimated at well over 500,000 and the numbers employed in downstream manufacturing sectors would increase this number substantially. The leather industry is very much an international industry - with raw hides and skins, part processed leather, finished leather, leather components and leather products widely imported and exported. FAO quote figures which demonstrate how important the leather sector is in international trade terms - much bigger than meat and other commonly recognised commodities. (<http://www.tannerscouncil.org/perspective.html>)

#### **4.2.2 International Trade**

(Million US Dollars - Average 1994-1996)

Raw hides and skins	5,419
Leather	13,053
Leather footwear	24,974
Total	43,445
Meat	17,900
(from cattle, sheep and goats)	
Coffee	10,600
Tea	1,850
Rice	6,400

Sugar	12,300
Rubber	6,7

### 4.2.3 Industry Trends

Since 1991 there has been a general trend which has seen shrinkage of the leather industry in South Africa with a lot of the volume manufactured locally being replaced by cheaper imports from China and India. For the lucrative automotive leather sector the industry has decreased due to the emergence of China (<http://eagleottawa.com>).

The fancy goods market has over the same period increased supported by the buying power of the South Africa middle class. Though there is an increase in expenditure in this sector, the local value of the industry has been reduced drastically as a result of lack of capacity in the existing players to compete with cheaper imports from China, India and Pakistan. (Kock, 2006)

The automotive leather industry has also declined due to program losses and downsizing by the largest leather employers and suppliers over the last five years. However, since Chinese imports have recently been curtailed again as a result of a bilateral agreement between China and South Africa, the local manufacturers are being given a breather to set up and be internationally competitive. This provides an exciting future for local manufacturing growth and opportunity (<http://eagleottawa.com>)

Over the last 3 years there have been trends in the market that have led to the changing importance of the automotive market declining. This has been as a result of more original equipment manufacturer (OEM) explores the cost advantage offer By China. However, a new faster growing marking known as the automotive leather after - market has been created and is growing rapidly. Growth rate cannot be quantified as these are small individual dealers and traders in automotive leather which are now distributed all over the country near any car dealer in South Africa. Their choice of suppliers is mainly based on price, availability of material and quicker turn around. It is believed that DS Leathers' business concept has come in at the right time when it's not viable for the bigger leather manufacturers to make small leather orders on their high capital equipment to meet these demands (Kock, 2006).

The automotive leather industry has declined from 58% of the market to 40% while the shoe upper industry has also seen a decline. These trends are primarily the move to China of one of the larger manufacturers in South Africa and cheaper imports from the East Asian countries respectively. However, the Automotive after market has increased in relative importance significantly over the last three years due to improved car sales. These trends are expected to continue over the next four years as the 2010 world cup soccer event approaches in South Africa. DS Leathers plans to initially focus on the fancy goods and automotive after-market while aggressively targeting the OEM's for a sections of that market. Over the next few years DS Leathers will start to direct more programs at this lucrative segment. DS Leathers can gain a considerable share of this segment because of

the superior technical capabilities of its manufacturing processes, management know-how, and overseas technical support and empowerment credentials (Kock, 2006).

### **4.3 Social, Technological, Ecological, Economic and Technological Environments**

As discussed in chapter two, broad environment can exert considerable direct and indirect pressures on both domestic and international activities. The table below provides information on different broad environment categories (Ferrell *et al*, 2006).

<b>Social Environment</b>	<p>The Eastern Cape remains one of the poorest provinces in South Africa. This is largely due to the extreme poverty found in the former homelands where subsistence agriculture predominates. The two major industrial centers, Port Elizabeth and East London have well-developed economies based on the automotive industry. General Motors and Volkswagen both have major assembly lines in the Port Elizabeth area, while East London is dominated by the large DaimlerChrysler plant. (<a href="http://en.wikipedia.org/wiki/Eastern_Cape#Economy">http://en.wikipedia.org/wiki/Eastern_Cape#Economy</a>).</p> <p>The province is characterized by low levels of education, lack of skilled labor and high unemployment rates.</p>
<b>Technological Environment</b>	<p>The industry is under pressure to produce and export environmental friendly goods which depends on a number of factors. These factors include the cost and availability of environmentally friendly technologies and production methods.</p> <p>The challenge to the industry then is, are these technologies available to firms in developing countries? Do these firms have the resources to adopt these technologies? Are local policies conducive to the adoption of cleaner production technologies, and are the institutions responsible for monitoring and enforcing environmental standards competent? Again, the incentive to adopt environmentally friendly technologies for export markets will be greatly influenced by the behaviour of consumers in developed countries. Are the consumers in these countries willing to pay extra for products manufactured using environmentally friendly processes? Drivers of technical change, to meet environmental standards in the export market, to meet environmental standards, to reduce inefficient use of chemicals, power and water, Firms can reduce their production costs by reducing the amount of chemicals, power and water used. To improve quality, this is the most important objective of technical change introduced by the tanneries (Ghani, Kazmi, Khan, Mahmood and Mahmood, 1999).</p>
<b>Economic</b>	<p>South Africa has achieved a level of macro-economic stability not</p>

**Environment**

seen in the country for 40 years. These advances create opportunities for real increases in expenditure on social services, and reduce the costs and risks for all investors, laying the foundation for increased investment and growth. The budget deficit decreased from 9, 5% of Gross Domestic Product (GDP) (including the deficits of the former Bantustans) in 1993, to 1, and 5% in 2005. Total public-sector debt fell from over 60% of GDP in 1994 to barely 35% of GDP in 2005. The net open forward position of the Reserve Bank improved from - US\$25 billion in 1994 to a positive \$US17.2 billion by 2005 (the highest level ever). Foreign reserves rose from two month's import cover in 2004 to three months import in 2005. The world economy continued to enjoy robust economic growth in the first three quarters of 2005 and is likely to register real growth of almost 4½ per cent in 2005 as a whole, well above the trend growth rate. Against this background, the economic upswing in South Africa continued and completed twenty-four quarters of uninterrupted expansion in the third quarter of 2005. Revisions to the national accounts data, based on comprehensive information which mostly becomes available with a fairly long time lag, resulted in the growth rate of real gross domestic product for 2004 now being estimated at 4,5 per cent, instead of the previously calculated 3,7 percent. (<http://www.thedti.gov.za/investing/whyinvestinsa.htm>)

South Africa has concluded highly attractive preferential trade agreements with the European Union, the United States and the Southern African Development Council. These agreements open up new market and business opportunities for businesses wanting to invest directly in South Africa or partner with it for other types of business collaboration (<http://www.thedti.gov.za/investing/whyinvestinsa.htm>)

**Ecological environment**

The leather industry is experiencing ecological pressures which are likely to increase in the future. Traditional leather industries are particularly concerned about the emergence of greater ecological consciousness in the civil society adding that products such as shoes, leather goods, and other articles made out of leather are requested not only to be correctly priced and fit for use but also to fulfil ecological criteria. Leather is required to be produced in an environmentally and socially sound fashion, and to be technically suitable and safe during use.

The conventional leather tanning technology is highly polluting as it produces large amounts of organic and chemical pollutants. These pollutants, which are mostly contained in the effluent discharged by tanneries, are a serious threat to the environment. The tannery effluent, if not treated properly, can cause serious damage to soil and water bodies.

	<p>It is often suggested that the developing countries can take advantage of the increasing environmental concerns in developed countries by undertaking the production and export of environmentally friendly goods. It is also argued that the adoption of cleaner and environmentally friendly production methods will also become necessary to meet the increasingly tough environmental standards in developed countries.</p>
<p><b>Political Environment</b></p>	<p>The Leather Manufacturing industry is not exempted from global trade and environmental politics. These politics will pose a challenge to DS Leathers however they are not insurmountable.</p> <p>Antidumping policies in countries like Europe and stringent environmental laws and protectionism to distribute income to their local producers is one of the industry characteristics. Production subsidies dominate both tariffs and import quotas and efficiency ground since consumption costs of protectionism are avoided, yet governments generally prefer to assist industries by providing import protection rather than production subsidies.</p> <p>Rich countries are being very slow in implementing the Uruguay Round trade agreements in liberalizing imports. While it suited the North, they preached consumer sovereignty and confronted them with the “let the market decide” rhetoric. Now that several countries in the South have acquired comparative advantage in manufactured goods, the North is hiding behind environmental barriers to protect their industries, and forgetting the market ideology they preached (Ghani, Kazmi, Khan, Mahmood &amp; Mahmood, 1999).</p>

Table 4.1 STEEP ANALYSIS

Source: Pearce and Robinson (2003)

#### 4.4 Competition

In almost all the industries consumers have choices and preferences in terms of market offerings that they can buy. Thus when a firm defines its target market it must simultaneously select a set of competing firms. An organization requires clear understanding competitive pressures. A firm needs to know who its major brand, product and generic competitors. To overcome the turbulent competitive forces a firm should also be aware of the characteristics of its rivals in terms of size, growth, profitability, strategies, target markets and their key marketing capabilities (Ferrell *et al*, 2003).

The leather industry in South Africa is divided into Upholstery leather which covers the automotive and furniture leather, Shoe upper leather and fancy goods leather. DS Leathers competitors in the upholstery sector are Seton, Bader, Braana, Eagle Ottawa focused on automotive leather, with Feltex and Mario Levi on the automotive leather and furniture. Hannitan specializes in furniture. The shoe industry is dominated by Western Massop, Gringo leathers and Apeco with a small sector of family run tanneries making a combination of products. They are also smaller leather manufacturers, which specializes in contract leather manufacturing each with a unique market niche and serving unique customers that are local or most exports. The following table shows a listing of the competitors in this market by sector (DS Leathers research report, 2006).

The market leaders are the three global players Bader, Eagle Ottawa and Seton which have a presence in almost every continent and their strategy in terms of location and sourcing ensures that there get a slice of the market in the merging and the growing markets. However their operations and systems have made their operations very expensive because of the costs of trying to keep up with the market changes and relocating to cheaper emerging markets (DS Leathers research report, 2006).

#### 4.4.1 Current players and their market share

Market participants	% Market Share
Seton	30.3
Bader	25.4
Eagle Ottawa	24.4
Mario Levi	14.4
K.A.L	5.5
<b>TOTAL</b>	<b>100</b>

Table 4.2 Current Players and their market share

Source: Courtesy of DS Leathers Research Department

- Currently with the changes in the industry as a result of some programs being moved into China and South America by some companies and the declining market share for the South African industry as a result of new competition from South American Leather manufacturer Braana, the approximate market share is shown in table 4.3.
- Although the market value in terms of volume has declined by approximately 30%, new entrant Braana has still managed to capture 4.5% of the market

## 4.4.2 Upholstery

### Automotive leather suppliers

Company name	Origins	Other Location	Market Share					Projected 2007	Comments
			2003	2004	2005	2006	Projected 2007		
Bader	Germany	4 continents	30	28	28	29	31	Very consistent with and enclose operations systems and huge support from the Germany Head Office	
Braana	Uruguay	4 continents	0	3	18	18	30	New kid on the block with huge subsidies from Uruguay government. Excessive cheaper raw material from South America. Able to import all crust from Uruguay with duty and still be able to supply lower than the local made products.	
Eagle Ottawa South Africa	United States of America	4 continents	24	20	8	2	0	Excellent product quality and current management. But very bad politicized company with huge interference from the corporate and bad management reputation. Once the best automotive leather company in South Africa. Now relocating its operations reason because of loss of business in South Africa and also strategically supporting China and Hungary the new commissioned plants	
Feltex	Germany	2 Continents	9	7	6	10	12	Once the biggest tannery in the Southern African. Lost because of very bad management decisions that compromised the customer quality. Has changed ownership many times. Now German controlled but business not growing due to the past stigma.	
Mario Levi	Italy/South Africa	South Africa	6	14	11	9	7	Italy / South Africa joint venture. With exclusive market of all its products to Fiat. Politics and management changes and management style contributing factors.	
Seton	United States of America	4 continents	31	28	30	32	30	Known to be the best company to work with solid systems and management decisions. Once had a mixture of bad management in which they have been cleared.	

Table 4.3 Automotive leather suppliers

Source: Courtesy of DS Leathers Research Department

1.1.1 4.4.3 Fancy Goods

Shoe leather manufacturer

Company name	Origins	Other Location	Market Share					Projected 2007	Comments
			2003	2004	2005	2006			
Western Massop	Local	South Africa	42	36	38	40	41	Very consistent with huge contract to supply Woolworth's and also for export. Stands to benefit greatly as part of the contract of R120 million for shoes to the defence force, nurses, police etc.	
Gringo	Local	South Africa	12	16	13	14	11	Worst tannery in South Africa. Family run. Stands to benefit part of the contract of R120 million for shoes to the defence, nurses, police etc.	
Apeco	Local	South Africa	18	20	24	23	25	Stands to benefit part of the contract of R120 million for shoes to the defence force, nurses, police etc.	
Other (Small companies)	Local	South Africa	28	28	25	23	23	Excellent businesses for family run businesses.	

Table 4.4 Shoe leather manufacturer

Source: Courtesy of DS Leathers Research Department

For other fancy good (such as clothing, hand bags, wallets etc.) and Utility requirements, there is no reliable information as the manufacturers are operating as SMME to SME companies. Most are either family owned or privately owned. There is also the specialized ostrich leather industry that is emerging as sector on its own. DS Leathers is targeting a spread of products with a view to capture an accumulated three percent (3%) of the total market share by early 2008. DS Leathers management believes that this will be more than sufficient to cover its operating cost and other financial obligations.

#### **4.5 Costing and pricing**

The costing of leather products is similar from manufacturer to manufacturer, with an added advantage for suppliers that can use technology to enhance the products using less chemical cost. No costing can be leveraged from the raw material. There is a big push by the local and overseas customer for a cost effective product and only investment technological equipment that will give a manufacturer price advantage. Cost of product development is very constant because of ease and availability of technology from the leather chemical suppliers and the joint developments (Bowden, 2000).

The costing of the products is based on the hide utilization and the quoted cutting yield from the material. Current pricing has being inflated due to the ability of customers to claim rebates through the Motor Industry Development Program (M.I.P.D.) which was meant to make the industry competitive. The program is ending in 2012. Thus the MIPD has created an uncompetitive market in which companies like Braana from South

America are able to import material with transport cost, and duties and taxes and still remain very competitive (DS Leathers research report, 2006).

#### **4.6 Market segments**

Marketing strategy entails choosing a specific target market and making decisions regarding the crucial elements of product, price, promotion and distribution in order to meet the needs of customers in that market. Until an organization has chosen and analyzed a target market, it cannot make effective decisions regarding other elements of the marketing strategy (Ferrell *et al*, 2002). DS Leathers insights team identified the following segments:

- Local or domestic market (Which incorporates the SADC countries) and
- Overseas Market

Within these broad regions, the following customer types shall be targeted:

- Automotive leather customers
- Shoe leather customers
- Fancy leather goods customers

The automotive leather suppliers usually specialize in the automotive leather, whereas the shoe leather suppliers and the fancy goods leather suppliers can supply either of the products including the automotive after-market and furniture. It must be noted here that

the furniture market is the fastest growing leather market in South Africa and the world. There are also other leather supplies specializing in ostrich and exotics (DS Leathers customer insights team, 2006)

#### **4.7 Introduction to DS Leathers**

DS Leathers is new business venture that was motivated by the innovation in the science and art of leather making supported by the huge commercial potential that the leather products and other by products of leather when high technological equipment is used. The primary objective of the business is to manufacture leather and potentially leather products as well. The types of leather goods referred to are, fancy goods leather (luggage, clothing, handbags, wallets, briefcases), upholstery (automotive and furniture) and utilities such as house tiles, art, etc. (D, Kock, 2006).

DS Leathers aims to enter the automotive leather market through joint venture with Elmo Leathers in which the prospecting process is under way. DS Leathers believes that by having the capacity to use the locally produced raw material blended with imported raw materials can compete effectively with existing major players, without relying on the MIPD system. DS Leathers will also concentrate on the automotive after-market a cheaper form of supplying automotive leathers to the car users without going through the existing cartels and monopolies which make the ultimate leathers prices expensive. DS Leather has also has a unique product offering that is linked to SME/SMMEs in order to create jobs and also grow its own market in South Africa for its leather material and at the same time creating a global market for unique leather products.

After due diligence conducted by the Department of Trade industry DS Leathers it was recommended that the implementation of the business in four phases also allows for a robust marketing plan to be implemented in order to drive not only the local market, but also the international market while leveraging the Bilateral Trade agreements between South Africa and other countries. These four phases can be outlined as follows:

- Pre-development phase
- Phase 1: Finishing Plant
- Phase 2: Cutting and Designing plant
- Phase 3: Retanning Plant

#### **4.7.1 DS Leathers Products**

DS Leathers products are defined as finished leather products some of which will be designed and manufactured according to customer specifications and other in-house designed leather products to be marketed directly to the customer. In the various categories, the following broad segments define DS Leathers products:

#### **4.7.1.1 Fancy goods**

This segment includes luggage, clothing, wallets, belts, handbags and briefcases. Leather for this category can be sold directly to manufacturers of these goods, or DS Leathers could itself design and manufacture these goods for the open market.

#### **4.7.1.2 Upholstery**

The segment includes automotive leather as well as leather for furnisher. Leather for this segment can be supplied to the automotive after market businesses or directly to the OEM's. The furnisher market is steadily growing and is increasingly becoming an important contributor to the over all size of the upholstery market.

#### **4.7.1.3 Utilities**

This segment will encompass house tiles, wall artefacts, art and other such applications. DS Leathers long-term is to do parallel development to supply mainly automotive leather to the OEM's such as Daimler Chrysler South Africa (DCSA), General Motors (GM) and Volkswagen (VW).

#### **4.7.2 Export objectives**

It is projected that approximately 70% of the products proposed would be geared for export over a period of three years, with the assistance of the Swiss Import Promotion Programme (SIPPO) and Swedish South African Business Partnership Fund (SSBF) whom we have already engaged to facilitate future exports for our products. The DTI will also be involved through its export promotion programme.

DS Leathers has targeted 3% share of the total market. These figures exclude the export and import of raw material, fancy goods, furniture leathers, children's shoes and other leather products. These are other area in which DS Leathers could very easily diversify into to rapidly expand the business, since each leather processing system feeds into the other at the wet blue state.

#### **4.7.3 Unique features of DS Leathers products**

DS Leathers target products is to ensure that the quality of leather material and craftsmanship's on leather goods is the best quality equal or better than the current leather goods imported from Italy, china , India and Brazil. The focus will not be mass production but on craftsmanship with product customization. DS Leathers also intends to ensure that the product quality for the local market is high quality leather goods which a durable and a good value for money compared to the cheaper imports.

#### **4.7.4 Strategy Highlights**

##### **4.7.4.1 Marketing strategy highlights**

DS Leathers (Pty) Ltd will be in a better position and target development products and promotion materials products to growth markets over the next planning period. The company will strengthen its pre-development sales performance in various sales territories with the help of the Export Promotion Services from the Department of Trade and Industry (DTI), Swedish South African Business Partnership Fund (SSBF) and Swiss Imports Promotion Programme Organization (SIPPO). Brand launch and trademark will form some of the highlights through the use of defined strategies which are detailed in the Marketing Plan.

##### **4.7.4.2 Development strategy highlights**

DS Leathers intends securing machinery at a discount from Eagle Ottawa South Africa so that they can start with the product development and the training required. Over the next year the DS Leathers will focus material development for exhibiting into the major international leathers fairs and the other machinery required for the other phases so that once the developed processes can be transferred into the a production environment. This strategy will reduce the cost of acquiring the machinery from Italy and Germany by approximately R38 million and improve our lead time to be able to participate in the leather fairs particular from SSBF and SIPPO initiatives.

#### **4.7.4.3 Production strategy highlights**

In 2007/2008 DS Leathers on adding value to the material manufactured so that the leather material utilization can be increase from 68% to about 90%. This utilization which amounts to profits will further be improved to target 98% utilization by 2010.

#### **4.7.4. Organisation and management strategy highlights**

Over the 18 months DS Leathers will employ approximately 70 full time and 30 part time staff. The company will concentrate on developing overall policies and procedures in all areas. A training needs analysis will be conducted.

#### **4.8 Selling**

DS Leathers plans to sell its product to the existing users of the automotive after market and shoe leather manufacturer as we built our own profile of products to manufacture. DS Leathers will be initially selling mainly leather materials to users of leather then ultimately adding value to its products by making leather products.

DS Leathers goal is to participate in leather fairs local and international to further gain an insight of the global players and the global leather needs and also be able to create a market. An aggressive door to door selling of its products to the shoe industry and also product

presentation to the ultimate leather users will be the best alternative to understanding better on time customer requirements.

#### **4.8.1 Sales and Market Objectives**

The key sales and Market objectives for a new company such as DS Leathers is ensure that the target sales are attained through a methodical marketing strategy. The use of industry marketing experts has already been noted.

#### **4.8.2 Marketing Information Systems**

Since DS Leathers is a new start-up company, business monitoring systems have are not yet in place. However, such systems are to be implemented as soon as the DS Leathers become operational. Various campaigns will be conducted for professional business monitoring and reporting. Over the next year, a system will be put in place to monitor such diverse properties such as customer satisfaction or pricing efficiency. Evaluation systems shall inform all changes and improvements where necessary. The company will discipline itself to review monthly sales reports by product, segment and sales territories, compared to allocated budgets.

#### **4.8.3 Sales Team**

DS Leathers plans to be flexible in the customization of orders to clients need and sales representatives will be educated to place particular emphasis on these when interacting with customers. Other promotional ideas shall be discussed, prioritized and implemented where

possible. Full cognizance shall be taken in order to accommodate inter sectoral campaigns in DS Leathers marketing strategy in order to promote good customer perceptions with regard to DS Leathers products.

#### **4.9 Chapter Summary**

This chapter provides background information to the Leather industry as well as DS Leathers as an organization. Industry overview reveals that there is a lot of potential within the leather industry however the African continent lacks behind and has not optimized its potential. Broad environment poses its own challenges such as high technology requirements, trade barriers *etc.* however there are some advantages as well such a conducive economy and good trade relations with some countries. The chapter also touched on DS Leathers skills, resources, segments of interest and strategy highlights.

## **Chapter Five – In pursuit of a competitive advantage for DS Leathers**

### **5.1 Introduction**

Marketing success means gaining a competitive advantage, outperforming competitors and growing despite them in order to achieve that, a company must have a sound understanding of its internal state, its capabilities and the environment within it operates including its rivals. On the other hand the viability of any business rests on the hands of the customers; therefore a clear understanding of customers and their needs is pivotal to the success of any business. A theoretical framework was developed in chapter two and a case study was also developed in chapter, the framework sets out to identify DS Leather's circumstances with strategic analysis of internal capabilities and external opportunities. The analysis is intended to assess what marketing measures DS Leathers has to take in order to win in light of its environment, resources and capabilities.

### **5.2 Internal Analysis**

As discussed in chapter two each organization is a collection of unique resources and capabilities that provide the basis for its strategy and the primary source of its returns. Thus, differences in firm's performances across time are driven primarily by their unique resources and capabilities rather than by an industry's structural characteristics. Table below presents an analysis of DS Leathers internal resources.

### 5.2. 1 RBV Analysis of Resource Competency of DS Leathers

	Research and development (Innovation)						8	-2	6
1	<i>Technological ability</i>	+	+	+	N/A	+	4		
2	<i>Key people</i>	+	+	+	N/A	+	4		
3	<i>Financial Resources</i>	N/A	-	N/A	N/A	-		-2	
	Production (Manufacturing)						8	-5	3
4	<i>Product Quality</i>	+	+	-	+	-	3	-2	
5	<i>Access to Raw Materials</i>	-	-	N/A	N/A	-		-3	
6	<i>Workforce Attitudes and Motivation</i>	+	+	+	+	+	5		
	Finance							-1	-1
7	<i>Access to capital</i>	NA	-	N/A	N/A	N/A		-1	
	Organization (Management)						6	-4	2
8	<i>New product development</i>	+	+	-	+	N/A	3	-1	
9	<i>Reputation Brand-name</i>	-	N/A	N/A	-	-		-3	
10	<i>Marketing Skills Customer Orientation</i>	+	N/A	+	+	N/A	3		
11	Relations with External entities						6	-2	4
12	<i>Retailers</i>	+	N/A	-	+	N/A	2	-1	
13	<i>Banks</i>	+	N/A	-	N/A	N/A	1	-1	
14	<i>Political figures</i>	+	+	+	N/A	N/A	3		

Table 5.1 RBV Analysis of Resource Competency of DS Leathers

**Research and development (Innovation)** score comes to a positive six. The score is however not representative of all the segments that DS Leathers is interested as the only prototype that has been produced thus far is a leather frame. The furniture company Bakos Brothers rated the prototype as being highly innovative. Management team has good research skills such as one of the members has a doctoral degree in chemistry and specialises with research for Leather manufacturing.

**Production (Manufacturing)** score is positive three this is mainly brought down by challenges in terms access to raw materials. Interviewees indicated that high quality leather is mainly exported the quality offered locally is not good. On the other hand in terms of staff attitudes the score is a positive five, DS Leathers has a highly motivated visionary team. Management has experience in the industry. The size of their operation might pose a challenge such as a small single location operation hence no economies of scale, no benefit from experience curve either and small capacity.

**Finance** score, leans on the negative side negative one , DS has a limited financial muscle and has been struggling to source funds. Existing management does not high financial acumen either but the skill can always be sourced.

**Marketing Ability** , when DS Leathers management was interviewed they emphasized that their strongly believe that investing in getting relevant customer insights is their key priority, their intention into construct everything to do with their business around their

customer needs. The company recruited a highly qualified marketing expert with international experience and who believes in customer centricity.

**Relations with External entities,** During DS Leathers management interviews the researcher deduced that the team has excellent relationships with the government and hence they are receiving a considerable amount of support from the department of Trade and Industry and the Excellent relations with suppliers and political figures and government officials.

### **5.3 Strategy Options**

In their strategy documents DS Leathers have clearly demonstrated an understanding of existence of such concepts as strategy and existence of various segments within the leather industry. Strategy must however give a clear and precise plan of how an organization intends to create value for its shareholders, customers and citizens. DS Leathers has not chosen any of the three generic strategies described by Porter in chapter two such as cost leadership, differentiation and segmentation. DS Leathers intends pursuing such segments as automotives industry, shoe industry and furniture industry. They mention that they envisage producing at a cheaper price than its competitors however as we learnt in chapter two cost leadership is attained either as a result of economies of scale, efficiency resulting from experience curve etc of which DS Leathers does not possess any of the previously mentioned positional advantages.

On the other hand pursuing all segments could jeopardise the probability of success as stated in chapter two that being all things to all people is a recipe for strategic mediocrity.

As demonstrated in the RBV analysis of DS Leathers there is no evidence of strong positional advantages or distinctive competencies, there is however potential to develop them.

#### **5.4 Capturing Marketing Insights**

DS Leathers as an organization does not exist in a vacuum; it is set in a country South Africa and the globe which it is inextricably linked. This setting provides multiple contexts that influence how the organization will operate and how and what it will produce. Analysis of the external environment is an attempt to understand the forces outside DS Leathers that are helping to shape the organization. As discussed in the second chapter this entails the broad and the task environment. The broad environment analysis or STEEP analysis led to the findings listed in table 5.2.

### 5.4.1 STEEP ANALYSIS

<b>Social Environment</b>	<ul style="list-style-type: none"> <li>➤ Poorest province in South Africa</li> <li>➤ Low levels of education</li> <li>➤ Lack of Skilled labour</li> <li>➤ High rates of unemployment</li> </ul>
<b>Technological Environment</b>	<ul style="list-style-type: none"> <li>➤ Industry is a under pressure to produce and export environmentally friendly goods including the cost and availability of environmentally friendly technologies and production methods</li> </ul>
<b>Ecological Environment</b>	<ul style="list-style-type: none"> <li>➤ The leather industry is experiencing ecological pressures which are likely to increase in the future.</li> <li>➤ The conventional leather tanning technology is highly polluting as it produces large amounts of organic and chemical pollutants.</li> </ul>
<b>Economical Environment</b>	<ul style="list-style-type: none"> <li>➤ Population of 44 million people and a GDP of US\$113 billion</li> <li>➤ The Global Competitiveness Report ranks South Africa 25th out of 75 countries, fifth best amongst all developing countries in the world.</li> <li>➤ In terms of general infrastructure, the country is rated 22<sup>nd</sup>.</li> <li>➤ In terms of its financial market sophistication 16th.</li> <li>➤ South Africa has a strong technological base.</li> <li>➤ Highly attractive preferential trade agreements with the European Union, the United States and the Southern African Development Council.</li> </ul>
<b>Political Environment</b>	<ul style="list-style-type: none"> <li>➤ Stringent environmental laws and antidumping policies in countries like Europe and and protectionism to distribute income to their local producers is one of the industry characteristics.</li> <li>➤ Production subsidies dominate both tariffs and import quotas and efficiency ground since consumption costs of protectionism are avoided</li> </ul>

Table 5.2 STEEP ANALYSIS



## 5.5 Industry Analysis

The first section sets to identify the industry dominant economic features. Information relating to industry dominant features was mainly obtained from secondary sources presented and referenced in chapter four.

### 5.5.1 Industry Dominant Economic Features

- **Market size**, The total market for the South African leather product is estimated at US \$ 5.7 billion. The leather industry in total produces about 18 billion square feet of leather a year, valued at \$40 billion. Developing countries now produce over 60% of the world's leather, and this proportion is growing.  
(<http://www.tannerscouncil.org/perspective.htm>)
- **Scope of competitive rivalry** Competition in the industry is global
- **Market growth rate and position in the business life cycle**, maturity
- **Number of rivals and their relative size is the industry fragmented into many small competitors concentrated and dominated by a few large companies** The market leaders are three global players Bader, Eagle Ottawa and Seton which have a presence in almost every continent. Competition is intense and players operate at a global level.
- **Number of buyers and their relative sizes** buyers range from Automotives seat manufacturers, furniture manufacturers to shoe and bag manufacturers.

- **Whether and to what extent industry rivals have integrated backward or forward** On the automotives side the industry is vertically integrated for example AUNDE South Africa is vertically integrated manufacturing capability extending from the manufacture of textiles through the cutting and sewing to the final motor vehicle component
- **The pace of technological change in both production processes innovation and new product introductions.** Moderate, technological change is important in the industry as this is required for both for environmental regulations compliance as well as for reducing costs of production. Innovation mainly does not require new technology.
- **Whether the products and services of rival firms are highly differentiated, weakly differentiation or essentially identical.** The physical products do not differ much, suppliers differentiate themselves through complying with high quality standards such as being ISO 9001:2000, ISO/TS 16949:2002 and VDA6.3 compliant([www.mercedesbenz.com](http://www.mercedesbenz.com) ).
- **Whether companies can realize economies of scale in purchasing, manufacturing, transportation, marketing or advertising.** Economies of scale are definitely realizable in terms of marketing.
- **Whether the industry participants are clustered in a particular location.** Major players have presence in every continent.
- **Whether the industry profitability is above or below par market.** Above

### 5.5.2 Porter's five forces

Deducing from both interviews as well as secondary information presented in chapter four regarding the leather industry, there is strong evidence of the facts which are represented both graphically and in the table format regarding Porter's five forces.

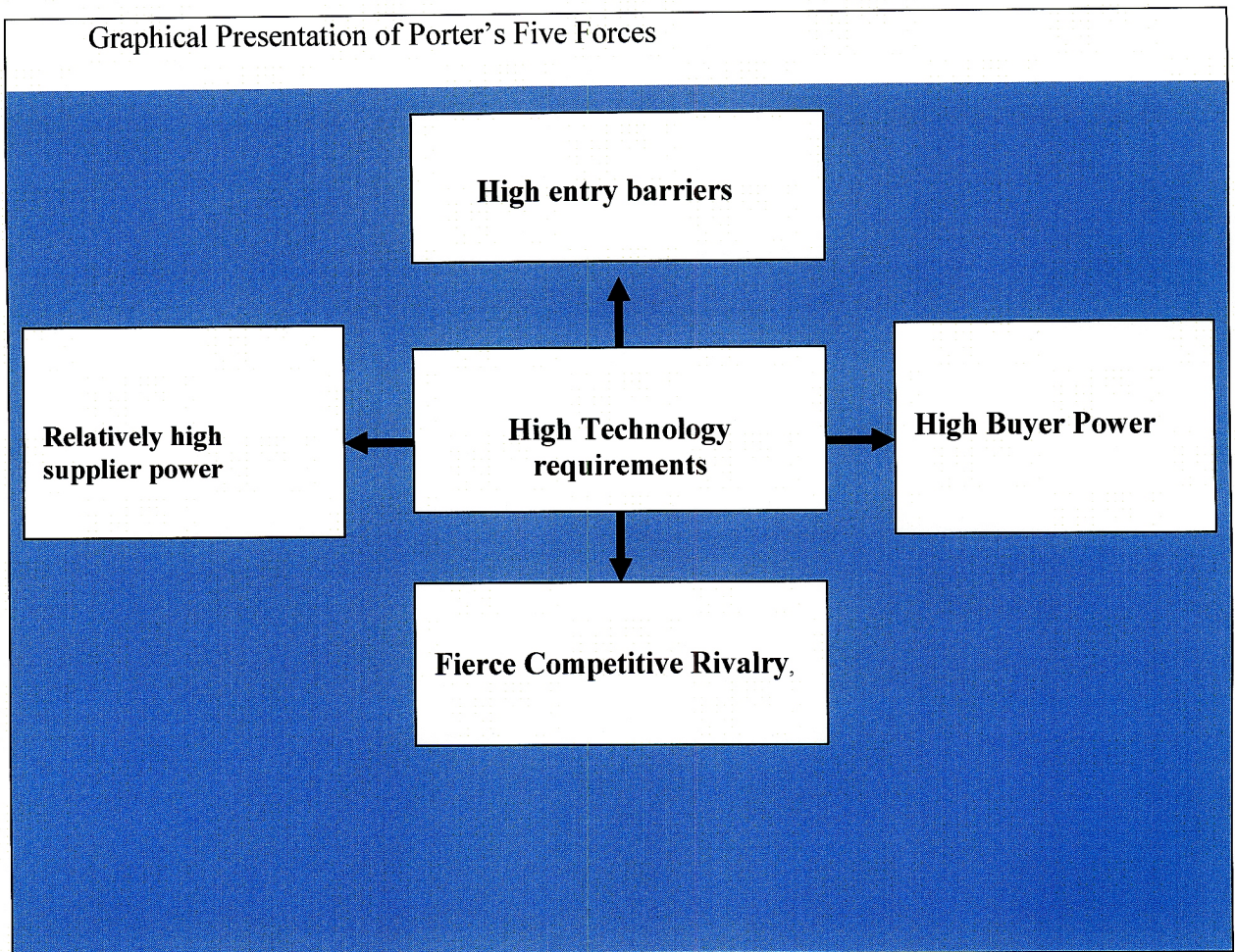


Figure 5.1 Porter's Five Forces

## 5.6 Customer Environment

Customer-centric means being the kind of supplier that your target customer would really like you to be, unless DS Leathers finds out what its customers would want them to be as their supplier they will miss the boat. “In matters of taste, the consumer is king. It is for the international industry to continue to show ingenuity and innovation to meet the desires, needs and demands of the consumer, whether in footwear, clothing, upholstery and furnishings or leather-goods of every description. To remain competitive in the world market - and competitive in this instance includes subjective concepts as well as objective measurement, every link in the leather chain has to remain vigilant, manufacturing to the standards the public is entitled to expect in the 21st Century.”

<http://www.tannerscouncil.org/perspective.htm>

This part analyses customer needs and thereafter the intensity of competition is established. The customer needs are determined are obtained from the interview answers. As indicated on chapter four DS Leathers initially had three customers of interest which also the biggest leather consumers such as automotives companies for car leather seats manufacturing , footwear and bags and thirdly furniture industry mainly for manufacture of leather couches and chairs.

#### 5.3.4.1 Automotives Industry

The most lucrative prospective customers in the industry are manufacturers of German cars as these are mostly luxury cars with leather interior. These include companies such as Daimler Chrysler, BMW, Audi, Volvo and others. Other customers include other car manufacturers but non-luxury cars mainly use non leather materials for car seats.

Information regarding procurement processes and requirement for companies such as Mercedes-Benz from the company websites as Audi, Ford and BMW were directly interviewed.

Questions asked which are interview schedule which is included in this document were mainly about prospective customer expectations, leather procurement procedures, decision making process, quality requirements, and satisfaction levels with the current suppliers and their innovative processes.

Findings indicate that the customer expectations in this industry are extremely high as detailed below:

- The automotives customer needs are high and buying or procurement decisions are centrally made for an example as Audi 's decisions about who supplies their leather interior are made in Germany, Audi tries to have all its car seats installed in Germany only a minute amount of seats are installed locally.
- Daimler Chrysler as well as BMW operate on the basis of global procurement decisions leaving no decision making regarding leather procurement and installation to local countries.
- Suppliers are appointed to produce globally as well for an example; Aunde is the sole supplier of BMW one series model worldwide ([www.aunde.com](http://www.aunde.com)).

- There are high quality performance standards required such as leather suppliers are expected to comply with quality standards such as being ISO 9001:2000, ISO/TS 16949:2002 and VDA6.3 compliant( [www.mercedesbenz.com](http://www.mercedesbenz.com) ).
- The procurement bidding process is extremely costly, for instance a supplier has to produce prototypes of leather seats they have to be tested worldwide before a contract can be secured.
- Key industry success factors include being able to produce high quality in high volumes, on- time delivery, having resources to cope with the bidding processes.
- There is however a new emerging and growing market called the leather after-market with less stringent entry requirements. For an example at Audi as well there is no formalized procurement process for the leather after market. Procurement decisions for the leather aftermarket at Audi are made from dealership to dealership. The same applies with Ford, there is no formalized process and there are not stringent quality requirements. It is however very difficult to quantify the size of this industry in order to establish the amount of the leather demand.

### **5.6.1 Footwear and Bags Industry**

There are a number of prospective customers or current suppliers in this industry ranging from international premier brand bags manufacturers such supplying niche market such as Louis Vinton, Giorgio Armani Gucci, to mass marketers such as POLO, Busby, Hedesi and others.

Busby was also interviewed in order to also establish customer expectations, leather procurement procedures, decision making process, quality requirements, and satisfaction levels with the current suppliers and their innovative processes. Findings from Busby as manufactures of small goods as well as handbags indicate the following:

- Procurement decisions are made locally by their managing director.

- There are no formalized leather quality requirements, decisions are purely made based on aesthetic state of the presented prototypes.
- They are supplied by various tanneries based on the type of product requirements such as ostrich and or buffalo.
- Internationally they use approximately two million square feet of leather with approximately ten percent of that being used and sourced locally.
- A bigger percentage of this is imported from China and India.
- The service of their suppliers is described as fair they have been with current suppliers for thirty years.
- Attributes that were highlighted as key to the success of a leather supplier are: grading each skin correctly, thickness of the material, marks on the material
- General comments indicate that the industry has seen a decline in the quality of local leather major reason being that all the quality raw skins are exported to overseas companies.

### **5.6.2 Furniture Industry**

On the furniture industry two furniture companies were interviewed Grafton Everest (one of the biggest consumers of leather for manufacturing couches) for the purposes of establishing their leather procurement processes and quality requirements. Bakes Brothers a niche market furniture shop focusing on the top end of the market known for best decorative concepts was interviewed to evaluate DS Leathers innovative edge. A leather frame developed by DS Leathers was assessed by Bakos Brothers.

- Findings from Grafton Everest revealed that they source approximately four million square meters of leather per annum and sixty percent of that is sourced from local leather manufactures.

- Procurement decisions are made locally by each branch
- There are no formalized leather quality requirements decisions are purely made based on quality of the presented prototypes.
- The service was rated as good they with current suppliers and they do not have fixed contracts with their suppliers. .
- Findings from Bakos Brothers revealed that the leather frame concept is totally new to them.
- Bakos brothers indicated that they think it's a concept that they consider valid and that they would even be willing to be a channel once DS Leathers had produced the items.
- Bakos Brothers immediately indicated that the frames clearly show an innovative African theme concept with high success potential and with a high degree of flexibility to be changed to other themes.
- While production costs for the frame are approximately One Thousand Rands, Bakos Brothers indicated that with the right content, the frame could be sold at a price of approximately Thirty Thousand Rands.
- Bakos Brothers suggested that the product can target a niche market as well as tourists depending on the content of the picture.
- Bakos Brothers indicated that what they consider key success factor is being innovative, coming up with genuine unique furniture. On things like frames they indicated that the content is very important it determines which market would buy the piece of work.

## **5.7 Competition**

"The essence of strategy formulation is coping with competition. ... Intense competition in an industry is neither coincidence nor bad luck."(Pearce & Robertson, 2002).

Secondary information presented in chapter four clearly indicates that there is intense competition in the Leather industry across all segments. The key players and market leaders Bader, Eagle Ottawa and Seton are global players that have presence in most continents. DS Leathers competitors in the upholstery sector are Seton, Bader, Braana, Eagle Ottawa focused on automotive leather, with Feltex and Mario Levi on the automotive leather and furniture. Hannitan specializes in furniture. The shoe industry is dominated by Western Massop, Gringo leathers and Apeco .There are also smaller leather manufacturers, which specializes in contract leather manufacturing each with a unique market niche and serving unique customers that are local or most exports. What is clearly evident about DS Leathers competitors is that they are heavily supported by their respective country governments. There is however fluctuations in their market share except for the new player Braana which shows steady growth.

### **5.8 DS Leathers Brand**

As a new business venture DS Leathers has no brand equity what so ever. DS Leathers has a formidable task of building a strong brand in highly competitive environment. In as much as brand equity is important, prospective customers such as Ford, Grafton Everest and Busby indicated that the key purchasing determinant is the quality. When interviewing Audi, it was also established that for their Leather- aftermarket they were approached by the current supplier and the decision was made purely based on the quality of the prototype presented, therefore DS Leathers stands a chance although they currently do not have any brand equity.

## **5.9 SWOT Analysis**

This model relates Strengths and Weaknesses with Opportunities and Threats. Strengths and Weaknesses (internal environment) are factors that the organization has more control of. Whilst opportunities and threats (external environment) are beyond immediate control, a good fit maximizes the strengths and opportunities minimises the weaknesses and threats. Figure 5.2 represents DS Leather SWOT analysis based on all the information presented above and in chapter four.

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>➤ Management with international leather manufacturing expertise and experience.</li> <li>➤ Management also possesses advanced chemical industry expertise and leather manufacturing experience.</li> <li>➤ Management possesses strong research and development background</li> <li>➤ Management possess advanced international marketing skills</li> <li>➤ Strong entrepreneurial thrust</li> <li>➤ Highly motivated visionary management</li> <li>➤ Strong customer orientation</li> <li>➤ Strong marketing research skills</li> <li>➤ Innovative and unique ideas for furniture industry.</li> <li>➤ Strong relationships with politicians</li> <li>➤ Only 100% black owned leather manufacturing firm.</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>➤ Low level of technology</li> <li>➤ New venture no brand equity</li> <li>➤ Scarcity of product designers to design concepts management has in mind</li> <li>➤ Scarcity of leather sewing technicians Shortage of skilled workers, supervisors, technologists, designers and entrepreneurs</li> <li>➤ Small operation limiting economies of scale</li> <li>➤ Limited financial resources</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>➤ Growing buying power of the SA middle class</li> <li>➤ Strong support of the industry by the department of trade and industry</li> <li>➤ Bilateral agreement between SA and China</li> <li>➤ Relatively cheap labor costs</li> <li>➤ SA preferential agreements with the US, EU and sub-Saharan countries</li> <li>➤ European Union – South Africa Free Trade Agreement</li> <li>➤ International Trade Forum <i>and</i> African Federation of Leather and Allied Industries (AFLAI) initiatives.</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>➤ Cheap leather products from India and China</li> <li>➤ Relocation of automotives companies to China pursuing cost advantage.</li> <li>➤ Lack of local high quality raw hides.</li> <li>➤ Expensive bidding processes for the automotives industry.</li> <li>➤ Quality bodies subscription requirements for automotives industry.</li> <li>➤ Protectionism in Northern countries</li> </ul>

Figure 5.2 SWOT Analysis of DS Leathers

## **5.10 Addressing Weaknesses and Threats to the business**

The major weaknesses are that the level of technology used is very low; does not only reduce the production capacity of the smaller manufacturers but also affects the quality of their products, thereby affecting their competitive edge in the international markets. Skills shortage is another challenge. These will all be addressed by training as DS Leathers has already secured funding with the Chinese government. DS Leathers can also take advantage of the current skills upgrade tax rebates that the South African government currently offers. Manufacture of exotic accessories is one of the many opportunities that the department of Trade and Industry has advertised. The department mentions international brands such as Nike, Addidas, Hush puppies as currently procuring in South Africa which shows confidence in the local shoe manufacturing sector.

Innovative unique furniture and products is the one attribute that can give DS Leathers a competitive edge this was highly demonstrated by the evaluation done by Bakos Brothers.

DS Leathers can also take advantage of initiatives of such organizations as International Trade (ITC) which seeks to increase Africa's share, especially in the production and trade of finished leather goods, which accounts for over half the value of trade in the leather sector as a whole. Federation of Leather and Allied Industries (AFLAI) is another forum which launched 'Meet in Africa', launched in Cape Town in 1998, followed by Casablanca in 2000, Tunis in 2002 and Addis Ababa in 2004, is now an international crossroad, combining a trade fair involving buyers from all over the world with events including seminars, expert group meetings, buyers–sellers meetings and

factory visits. In this forum, firms and institutions identify measures to be taken and valuable partnerships are forged. It also brings together professional associations, trade support institutions, customs, transport companies and various ministries of the host country to coordinate each event.

## **5.11 Chapter Summary**

The chapter began with leather industry analysis which looked at three which indicates that this is a matured industry, highly competitive with big global players which have presence in every country and with years of experience. The environmental analysis show that in the location of the leather plant social conditions do call for a venture of this nature that would make a difference, economy of the country is conducive there are however some technological, ecological and political challenges. The second part is customer environment and intense competitor analysis. Customer environment shows that automotives industry has high entry requirements however there are some gaps and opportunities in the furniture and shoes and bags industry. The final part is assessment of preceding parts and an evaluation through SWOT analysis indicates that there are challenges like skills shortage and low technology requirements which can be overcome by investing in training. The support offered by the department of Trade and industry is an opportunity that DS Leathers can take advantage of. What appears to be an attribute that can be developed into a competitive advantage for DS Leathers is innovation for furniture industry and there is also potential in the footwear industry as well.

## **Chapter Six – Recommendation and Conclusion**

### **6.1 Introduction**

The objective of this study is to analyze the Leather industry, understand industry dynamics, the needs and wants both met and unmet, establish gaps of the prospective customers in order to make informed strategic decisions about segments to pursue and the best positioning to adopt in order to gain a competitive advantage in order to strategically market DS Leathers. A further objective is to investigate which segments should DS Leathers be pursuing in relation to the market in environment and its capabilities. Results indicate that automotives industry is not the best segment for DS Leathers, footwear and furniture industry shows some potential. Of the various forms of pursuing a competitive advantage analysis shows that cost advantage strategy would not be an option. This section will further examined and conclusions will provide the answer to the problem statement.

### **6.2 The Leather Industry**

Chapter four assessed the company and the environment in which it operates. To establish what is DS Leathers Competitive advantage. The company weaknesses and strengths and environmental opportunities and threats provide a good indication of the industry situation. The SWOT analysis is therefore the chosen strategic technique to assess the industry, customer and competition. The reason for this choice of technique is

that it gives a good indication of the ability of the company resources to meet environmental requirements that determine competitive success.

### **6.3 Current DS Leather Plan**

The current DS Leather plan is to pursue the automotives leather industry by entering the automotives leather after market first, the footwear market as well as the furniture industry. Their argument is that the infrastructure required to produce all these three commodities is more or less the same. The management of DS Leathers has hope that DS Leathers will become a cost leader as a result of manufacturing efficiencies to be their distinctive competitive and edge and superior resources.

Analysis showed that DS Leathers plan is not necessarily congruent or in line with its current resources skills as follows:

- Current size of the operation and hence effect on economies of scale as well as the technology available will not necessarily lead to cost advantage as a result of manufacturing efficiencies.
- No savings can be made from the material.
- Fierce competition in the automotives leather manufacturing industry, high quality requirements, expensive bidding processes would pose a major challenge to DS Leathers.

DS Leathers has the following strengths that can be developed to a distinctive competency and positional advantage:

- Management with international leather manufacturing expertise and experience.
- Management also possesses advanced chemical industry expertise and leather manufacturing experience.
- Management possesses strong research and development background
- Management possess advanced international marketing skills
- Strong entrepreneurial thrust
- Highly motivated visionary management
- Strong customer orientation
- Strong marketing research skills
- Innovative and unique ideas for furniture industry.
- Strong relationships with politicians
- Only 100% black owned leather manufacturing firm.

In summary the findings are that the leather industry is highly competitive with fierce competition and global players. Customers in the automotives industry have high demands of quality standards. Customer satisfactory levels in the bags and furniture industry indicate that customers are convertible; they are not necessarily delighted with their current suppliers.

## **6.4 Conclusion and Recommendations**

Rao (1998) advises that once an a firm has analyzed the components of competitive advantage both itself and competitors relative to each market it can select those strengths which provide an advantage and weaknesses that do not impose significant handicap. As the analysis has shown that DS Leathers does not necessarily have superior tangible and concrete resources such as money, superior technology, patents but has optimistic personnel with entrepreneurial and innovative spirits DS Leathers should further invest on skills development, and attitudinal transfer. The proposed approach is that in pursuit of competitive advantage DS Leathers should be charged with developing skills that allow them to better achieve chosen goals and objectives.

## 6.5 Recommended Competitive Advantage Elements for DS Leathers

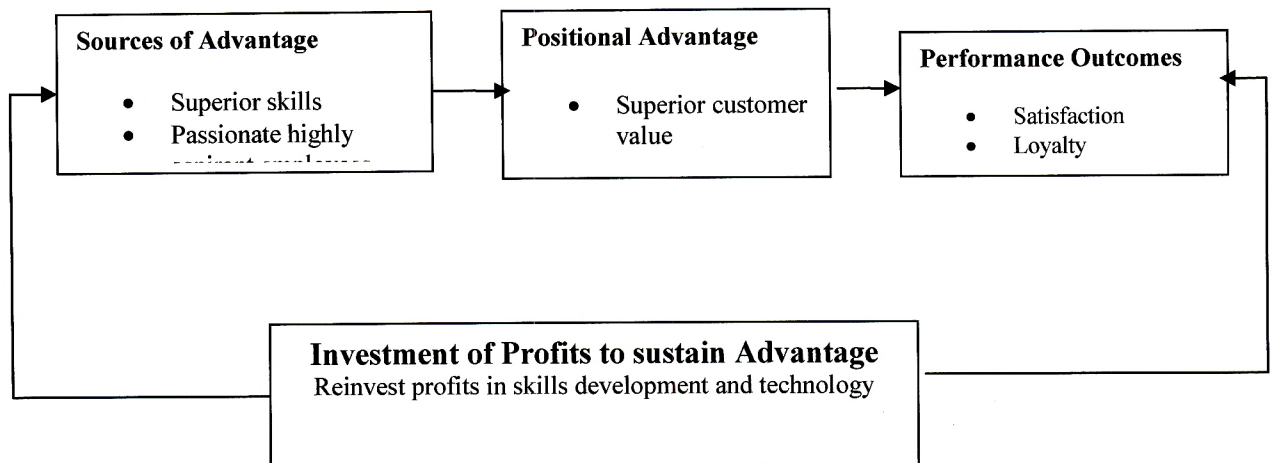


Figure 6.1 Recommended Competitive Advantage Elements for DS Leathers

DS Leathers should take advantage of the training facility secured with the Chinese government as well as the tax rebates offered by the South African government; heavily invest on the technical skills of its employees. DS Leathers should also actively seek support from the government as this venture can be used as a poverty alleviation tool in the Eastern Cape and skills transfer vehicle. They should also take advantage of the skills acquired by one of the Leather manufacturing skills as well as chemistry skills and advanced marketing management skills of their existing management to ensure technical expertise which will counter the threat of poor quality as a result less advanced production technology.

The analysis also showed that at this stage DS Leathers does not necessarily possess the resources and the skills for dominating the automotive segment. Deducing from the findings that relate to Bakos Brothers interviews, DS Leathers has innovative ideas for the furniture industry. Environmental analysis also indicated that there are opportunities within the footwear industry presented by the department of Trade industry while DS Leathers also has strong political relationships and also being the only leather manufacturing firm which 100 % black is owned. The recommendation is therefore that DS Leathers should pursue the footwear and bags industry targeting initially the supplying the government which will also give DS Leathers a chance to gain experience and master quality before pursuing supplying big brands such as Nike and others. It is recommended that DS Leathers should rather focus on two segments. The choice of markets to serve is the essence of sound strategic planning. This will also help DS Leathers to focus its skills and resources and do only two things exceptionally well. 'Hidden champions are often obscure companies that become market leaders by doing one thing exceptionally well' (Weinstein, 1998).

DS Leathers should apply a model that applied by Honda where in the face of a stagnant market dominated by British producers of larger motorcycles used primarily for transportation; Honda produced smaller bikes that appealed to the middle class for use as secondary recreational vehicle. It mass produced employed heavy advertising and extensive distribution and consequently produced superior value. The profits generated

from initial success were reinvested to cut costs and further develop new models for specialized use. Honda focused on building reputation sales and reputation. DS Leathers should reinvest its initial profits until it can get to a point where it has built its reputation and dominates the market.

It is proposed that DS Leathers should develop and offer their brand as a central value proposition for both its external and internal customers. DS Leathers should go beyond traditional brand management technique. This will be achieved by developing clear concise philosophy based on clear market definition, goals and vision. This will be developed into an internal mantra which will be centred on excellence and passion in the production process as well as when servicing external and internal customers. Every member of the staff will be indoctrinated with this philosophy; every staff member will be indoctrinated as a brand ambassador ensuring that everything that they do is in line with the overall goal of getting optimal result with every little the company has. Organizations that build on clear concise and consistent philosophies based on effective market definition are capable of winning or dominating their markets. Services companies like Avis and BBVA bank have applied this technique with success. Complemented by Total Quality Management this can be extended to manufacturing firms.

The problem statement, identified earlier in this study, appears hereunder:

What distinctive competencies and positional advantage does DS Leathers possess that could be developed to a competitive advantage does DS Leathers p in light of its environment?

Based on the results of the study the answer to the problem statement is:

DS Leathers distinctive competence that could be developed to a competitive advantage is its superior skills and potential positional advantage is superior customer value.

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## **Interview Schedule**

The interview schedule consists of semi-structured questions that provide for flexibility and ability to explore relevant or new aspects that come up. Prompts are used to facilitate maximum coverage of subjects that may not be previously considered by respondents but are pertinent to research.

The purpose of the research is explained to the respondents upfront in order for respondents to be able to volunteer additional information which is not covered in the questions which they would consider to be relevant.

Industry:

Company Name:

Size and Number of Employees:

Designation of the person interviewed:

Duration with the Organization:

## **Questions**

### **1. BUYING AND PROCUREMENT OF RAW LEATHER MATERIAL**

#### **DECISION MAKING PROCESS**

- i. Are procurement decisions made by Aunde or the automotives company?
- ii. If they are made by Aunde are they made locally or at your head offices?
- iii. Is the decision a group or an individual decision and if it is an individual decision what is the designation of that individual?
- iv. What does the procurement process entail?

#### **2.Selection Criteria**

- i. Please specify the selection criterion.

#### **3. Quality Standards**

- i. For a firm to be your leather supplier are there any specific quality bodies that they have to subscribe to or be approved by?

### **3. Product needs**

- i. What are the key attributes that you look for when purchasing leather products?
- ii. Please rank them in the order of importance.
- iii. Do you feel that these needs are currently adequately met?

### **4. Consumption Patterns**

- iv. What is the quantity of leather that the entire group uses per annum?
- v. What is the quantity that the South African operations use?
- vi. What quantity is sourced from a South African Leather company?
- vii. What is the ratio of the aftermarket leather consumption to the main industry?

### **5. Current supplier**

- i. Is your current supplier a South African based company?
- ii. How would you describe the quality of the physical product?
- iii. How would you describe the service received?
- iv. How long has your current supplier been supplying you?

- v. What is the duration of the current contract with your current supplier and how much time has lapsed?
- vi. What is the current price for a square meter?

## **6. Success factors**

What do you consider to be the key success factors for a leather supplier?

## **7. Innovation Process**

Is innovation leather innovation for your new car interior designs initiated by automotives or do you play a role?

Do suppliers actively come up with new textures or colours or are requested by the firm?

## **8. General and additional information**

Is there any additional information that you think will add value?

*Thank you for your participation.*