ASSESSMENT OF MARKET PRACTICES AND ORGANIZATIONAL COMPETITIVENESS OF SHEBA LEATHER INDUSTRY (PLC)

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ABSTRACT: Ethiopian leather development strategy has put the shoe industry on the forefront position to accelerate the development of the sector. The study focuses on the assessment of market practices and organizational competitiveness of Sheba leather industry. The main purpose is to find the factors that allow and prevent the company from coping up with competitive pressures and to find out the competitive advantages enjoyed and disadvantages faced by the company. A concept of competitiveness and parameters for measuring it has been discussed. The porter diamond model has been chosen to analyse the company’s competitiveness. As source of data four department managers and the general and deputy manager of the company were contacted by the researcher. The result depicts the low level competitiveness of the company. All determinants of competitiveness (factor conditions, home demand condition, related and supporting industries, and firm strategy, structure and rivalry) are found to be insignificant with the exception of natural resource endowment of the country in hides and skins and low labour cost availability. Lack of strong existence of related and supporting industries and factor conditions like scarcity of skilled labour, unavailability of raw materials (chemicals and shoe accessories) are the factors that limit the company from utilizing its cost advantage in raw hides and skins and sustaining its market share on domestic and international market. The study forwarded the diversification of the company’s product destination into large bases and the establishment of distribution outlets in different part of the country to base the company’s market on strong domestic demand.

KEYWORDS: competitiveness, competitive advantage, porter diamond model

INTRODUCTION

As the world is becoming one through the apparent rapid globalization process, local firms have to transform themselves into international firms. In this process, the national firms are needed to integrate into the multifaceted international market. The dominant way of integrating local firms into the international market is through exporting products and services. At the same time, firms’ international operations require huge resources, utilization of capabilities as well as competitiveness unlike operations limited to the domestic market. Conversely, the international movement of firms may be triggered by proactive motives (such as profit advantage, unique products, technological advantage, exclusive information, managerial urge, tax benefit, decline in government imposed barriers and economic of scale) and/or reactive motives (such as competitive pressures, overproduction, declining domestic sales, excess capacity, saturated domestic markets, and proximity to customers and ports) (Czinkota, 2004).

Ethiopia as a country is endowed with abundance of livestock resources and possesses one of the largest populations of livestock in Africa and even 7th-9th in the world, i.e. 53.4 million cattle, 25.5 million sheep and 22.7 million goats (CSA, 2011). However, the resource is not fully utilized and only 2.7million hides, 8.1million sheep skins and 7.5million goat skins are
sold on the market (MOTI, 2011). The Ethiopian sheep skins are well known for their quality. The goat skins in particular are known for their quality and international acceptance. Both goat and sheep skins are preferred for leather garments and gloves manufacturing in addition to being used for shoe upper. The resource endowment of the country illustrates considerable potential of the country in the leather sector.

The government of Ethiopia followed the strategy to support high value added product from tanneries. It promotes also the specialization of products so as to alleviate the competition over raw hides and skins. Since the pickle, wet blue and crust exportation is well taxed there is a room of supply linkage between tanneries so as to use one as a raw material for others. The main leather-related export item of Ethiopia is, however, low value-added hides and skins for the long time. Berhanu N. and Kibre M., 2002 investigated that the raw hide and skins are purchased from local tanneries what is domestically supplied to the leather products industry is only the 14% of the total product of the tanning industry. The bulk of the tanning industry output is exported in semi-processed form, a testimony to the underdeveloped nature of the sector as a whole: inefficient tanning and infant leather products sub-sectors. Birhanu N., 2002 analyzed that on average, Ethiopia produces only 25 million dollars worth of footwear annually which is less than 50% of the tanning industry’s output. This can be one of the major indications of low performance for the Ethiopian shoe factories.

The country’s comparative advantage in the Leather sector, such as availability of livestock population, cheap labour force, availability of big tanneries (soaking capacity), open access to Europe and U.S, has the potential to make the industry one of the most competitive industries if the existing local and international market opportunities are exploited and utilized in an efficient and effective manner, however the reality gives a different picture. Data on production and capacity utilization suggested that low levels of competitiveness prevented the sector from fully capitalizing on significant comparative advantages such as its large resource base and the attractive investment opportunities Ethiopia offered to leather product manufacturers based in industrialized countries. The practice of the country in shoe export activities is insignificant and is in low standard as compared with other African countries. According to performance of Shoe export to USA, EU, most shoe producers are not in a position to respond to foreign wholesalers and retailers requests due to their limited capacity to fulfil the foreign importer’s order in the required quantity, quality and time. (Shoe export performance report to US, USAID/Fintrac).

Hence, the researcher assess the marketing practices and firm level competitiveness of Sheba Leather Industry (PLC) taking in to consideration its past performance (market involvement/ experience)both in domestic and international market from its establishment till now.

**General objective**

The general objective of the study is to assess the marketing practices and organizational competitiveness of Sheba leather industry plc

The study will specifically address the following objectives:

- To pinpoint and analyze the strategies adopted by Sheba Leather Industry (PLC) to increase its market share and level of competitiveness.
- To examine the factors that allow Sheba Leather Industry (PLC) to compete in the market (domestic and/or international)
To identify major opportunities for Sheba leather industry and its strengths and weaknesses for securing these opportunities.

To investigate the action taken by Sheba Leather Industry (PLC) to increase its market share.

LITERATURE REVIEW

Competitiveness is one of the most powerful concepts in modern economic thinking. It can be defined at national level, industry and firm level. Although there are different definitions of competitiveness it is better to have a clear understanding of the concept of competitiveness.

At the macro-economy level, “competitiveness is recognized with a steady upward trend measured by GDP growth, productivity of resources and factors of production growing in macro-terms, and economic expansion onto the international market (enlargement of existing markets as well as entry into new market), that is, with the capacity of offering new, better and cheaper goods and services in a competitive environment” (Porter, 1990).

At the level of individual firms, Competitiveness is the capacity of a firm to survive and prosper, given the competition of other firms for the same profits. The competitiveness of a firm is the consequence of a comparative advantage relative to other firms.

According to Porter (1985, 1996), competitive advantage is the ability of a company to make products that provide more value to customers than rival products, leading to higher sales and higher profit for the company.

D’Cruz (1992) also defined firm level competitiveness as “the ability of a firm to design, produce and/or market products superior to those offered by competitors, considering the price and non-price qualities”.

Similarly, Beyene (2009) states “Competitiveness” as primarily a firm-level concept and refers to the ability of a firm to produce output of superior quality and lower costs than its domestic and international competitors. It is reached by improving product quality and through processes of product development.

Porter’s Diamond – Determining Factors of National Advantage

Increasingly, a corporate strategy has seen in a global context. Even an organization does not plan to import or to export directly management has to look at an international business environment in which the actions of competitors, buyers, sellers, new entrants and providers of substitutes may influence the domestic market. Information technology has a great impact on reinforcing this trend.

Michael Porter introduced a model that allows analyzing why some nations are more competitive than others, and why few industries within nations are more competitive than other industries, in his book ‘The Competitive Advantage of Nations’. It suggests that the national home base of an organization plays an important role in shaping its capacity to achieve competitive advantage on a global scale. The national home base offers basic factors which support or hinder organizations from building advantages in global competition. He discovers four classes of country attributes (which he calls the National Diamond) that provide the
underlying conditions or platform for the determination of national competitive advantage of a nation that are Factor Conditions, Home Demand Conditions, Related and Supporting Industries and Firm Strategy, Structure, and Rivalry and two exogenous factors; Government and Chance:

**Factor Conditions:** The country situation with regard to production factors which are relevant for competition in particular industries. Factor conditions include factors that can be used or exploited by companies in a given nation. These factors are grouped into human resources (qualification level, cost of labor, commitment etc.), material resources (natural resources, vegetation, space), knowledge resources, capital resources, and infrastructure. They also include quality of university research, labor market deregulation, or national stock market liquidity.

Factor conditions can be seen as advantageous factors found within a country that are subsequently build upon by companies to more advanced factors of competition. Each country has its own particular set of factor conditions. Hence, each country will develop those industries for which the particular set of factor conditions is optimal. This in turn leads to the existence of low-cost-countries (low costs of labor), agricultural countries (large countries with fertile soil), or the start-up culture (well developed venture capital market).

Porter points out that these factors are not necessarily nature-made or inherited. According to porter nations may develop and change the factors of production. Political initiatives, technological progress, socio-cultural changes, for instance may shape national factor conditions.

**Home Demand Conditions:** It describes the state of home demand for products and services produced in a country. Home demand conditions have an influence in shaping particular factor conditions. Similarly, Home demand conditions have impact on the pace and direction of innovation and product development. According to Porter, three major characteristics determine home demand: the mixture (the mix of customers needs and wants), the scope and growth rate, and the mechanisms that transmit domestic preferences to foreign markets.

As per Porter a country can achieve national advantages in an industry or market segment when home demand condition provides clearer and earlier signals of demand trends to domestic suppliers than to foreign competitors. Home markets have much higher influence on an organization's ability to recognize customers’ needs than foreign markets do. Porter, however, focuses more on demand differences than on similarities to explain the international competitiveness of countries. According to him, it is not only the size of the home demand that matters, but also the sophistication of home country buyers. It is the composition of home demand that shapes how firms perceive, interpret and respond to buyers’ needs. This forces home country firms to continually innovate and upgrade their competitive positions to meet the high standards in terms of product quality, features and service demands. More specifically, Porter (1990a, 1998a) regards the essential conditions of demand as: a home demand that anticipates and leads international demand, industry segments with a significant share of home demand, and sophisticated and demanding buyers.

**Related and Supporting Industries:** Related and supporting industries explain the existence or non-existence of internationally competitive supplying industries and supporting industries. One internationally successful industry may lead to advantages in other related or supporting
industries. The existence of well functioning and competitive supplying industry will strength innovation and internationalization in industries at later stages in the value system.

Besides suppliers, related industries are of importance. These are industries that can use and coordinate particular activities in the value chain together, or that are concerned with complementary products.

When local supporting industries and suppliers are competitive, home country companies will potentially get more cost efficient and receive more innovative parts and products. This will potentially lead to greater competitiveness for national firms.

**Firm Strategy, Structure, and Rivalry:** The conditions in a country that determine how companies are established; are organized and managed and that determine the characteristics of domestic competition. Here, cultural aspects play an important role. In different nations, factors like management structures, working morale, or interactions between companies are shaped differently. This will provide advantages and disadvantages for particular industries.

Typical corporate objectives in relation to patterns of commitment among workforce are of special importance. They are heavily influenced by structures of ownership and control. Family-business based industries that are dominated by owner-managers will behave differently than publicly quoted companies.

Porter argues that domestic rivalry and the search for competitive advantage within a nation can help provide organizations with bases for achieving such advantage on a more global scale.

**Porter diamond model**

![Porter Diamond Model](image)

Figure 1- porter diamond model Source: Michel porter (1990’s)

**Government:** The government may have an influence on the four aspects mentioned above by affecting conditions for the supply of key production factors, demand conditions and competition patterns among enterprises. Its intervention can also have an impact at local, national and supranational levels. On national level, governments can (and should) consider the policies that they should follow to establish national advantage, which enable local industries to develop strong competitive positions globally. According to Porter, governments can foster such advantages by ensuring high expectation of product performance, safety or
environmental standards, or by encouraging vertical co-operation between suppliers and buyers at the domestic level.

**Chance:** Chance means things that have little to do with particular circumstance in a nation and lie beyond the power of the firm. Fortuitous events, such as interventions, political decisions by foreign governments or wars, which are beyond the firm’s control, can generate discontinuities that will influence gaining or losing a competitive position.

### Porters five force model

The model of the Five Competitive Forces was developed by Michael E. Porter in his book “Competitive Strategy: Techniques for Analyzing Industries and Competitors” in 1980. Since that time it has become an important tool for analyzing an organizations industry structure in strategic processes.

Porter’s model is based on the insight that a corporate strategy should meet the opportunities and threats in the organizations external environment. Especially, competitive strategy should base on and understanding of industry structures and the way they change.

Porter has identified five competitive forces that shape every industry and every market. These forces determine the intensity of competition and hence the profitability and attractiveness of an industry. The objective of corporate strategy should be to modify these competitive forces in a way that improves the position of the organization. Porters model supports analysis of the driving forces in an industry. Based on the information derived from the Five Forces Analysis, management can decide how to influence or to exploit particular characteristics of their industry.

![Figure 2 - The Five Competitive Forces (porter 1998)](image)

**Bargaining Power of Suppliers:** The term 'suppliers' comprises all sources for inputs that are needed in order to provide goods or services. Supplier bargaining power is likely to be high when: The market is dominated by a few large suppliers rather than a fragmented source of supply, there are no substitutes for the particular input. The suppliers customers are fragmented, so their bargaining power is low. The switching costs from one supplier to another are high;
there is the possibility of the supplier integrating forwards in order to obtain higher prices and margins. This threat is especially high when the buying industry has a higher profitability than the supplying industry, forward integration provides economies of scale for the supplier, the buying industry hinders the supplying industry in their development (e.g. reluctance to accept new releases of products), and the buying industry has low barriers to entry. In such situations, the buying industry often faces a high pressure on margins from their suppliers. The relationship to powerful suppliers can potentially reduce strategic options for the organization.

**Bargaining Power of Customers:** Similarly, the bargaining power of customers determines how much customers can impose pressure on margins and volumes. Customers bargaining power is likely to be high when; They buy large volumes, there is a concentration of buyers, The supplying industry comprises a large number of small operators, The supplying industry operates with high fixed costs, The product is undifferentiated and can be replaces by substitutes, Switching to an alternative product is relatively simple and is not related to high costs, Customers have low margins and are price-sensitive, Customers could produce the product themselves, The product is not of strategically importance for the customer, The customer knows about the production costs of the product, There is the possibility for the customer integrating backwards.

**Threat of New Entrants:** The competition in an industry will be the higher, the easier it is for other companies to enter this industry. In such a situation, new entrants could change major determinants of the market environment (e.g. market shares, prices, customer loyalty) at any time. There is always a latent pressure for reaction and adjustment for existing players in this industry. The threat of new entries will depend on the extent to which there are barriers to entry. These are typically Economies of scale (minimum size requirements for profitable operations), High initial investments and fixed costs, Cost advantages of existing players due to experience curve effects of operation with fully depreciated assets, Brand loyalty of customers, Protected intellectual property like patents, licenses etc, Scarcity of important resources, e.g. qualified expert staff, Access to raw materials is controlled by existing players, Distribution channels are controlled by existing players, Existing players have close customer relations, e.g. from long-term service contracts, High switching costs for customers, Legislation and government action

**Threat of Substitutes:** A threat from substitutes exists if there are alternative products with lower prices of better performance parameters for the same purpose. They could potentially attract a significant proportion of market volume and hence reduce the potential sales volume for existing players. This category also relates to complementary products. Similarly to the threat of new entrants, the treat of substitutes is determined by factors like Brand loyalty of customers, Close customer relationships, switching costs for customers, the relative price for performance of substitutes, Current trends.

**Competitive Rivalry between Existing Players:** This force describes the intensity of competition between existing players (companies) in an industry. High competitive rivalry result a pressure on prices, margins, and hence, on profitability for every single company in the industry. Competition between existing players is likely to be high when; There are many players of about the same size, Players have similar strategies, There is not much differentiation between players and their products, hence, there is much price competition, Low market growth rates (growth of a particular company is possible only at the expense of a competitor), Barriers for exit are high (e.g. expensive and highly specialized equipment).
METHODOLOGY

The cross sectional survey design is employed for the purpose of this study. The data for the study were collected at one point in time from top level officials of Sheba leather industry (PLC) including General Manager, Deputy General Manager, market department head, production department head, quality assurance head, supply chain head and human resource manager. For the achievement of the research objectives purposive sampling and its extension part of snowball sampling techniques were used to undertake the study. As the researcher mentioned earlier top level officials of Sheba leather industry (PLC) approached by the researcher for detail information on the company’s overall operation. The technique is preferred based on the assumption that top level officials know every aspect of the company’s market practice and its competitive challenges in the dynamic world markets better than anyone else in the company and the personnel responsible for providing adequate information on questions of the study.

As part of the research strategy qualitative and quantitative data were collected both from primary and secondary sources of data, as an input for the finding of this research. Primary data were obtained through semi structured interview from top level officials of Sheba leather industry (plc.) Secondary sources are extracted from annual report of the organization, documents, brochures, and the company’s websites to supplement the primary data obtained from the primary sources through interview.

The porter’s diamond model of competitive advantage and five force model are used to analysis the data on the company. The model was selected because Porter’s diamond model has been widely used as a tool of competitiveness analysis in the world due to consistency in explaining why and how a completely different nation setting compete in international market and give directly applicable recommendation on what to change in order to improve the competitiveness of an industry, what to do to improve the attributes of a region or a sector (Leo et al. 2005).

RESULTS AND DISCUSSION

The first finding on factors condition indicated that the country’s endowment in abundant livestock resources creates an opportunity for companies engaged in the operation of tanning and shoe production. As confirmed by CSA (2011), the country possesses a livestock population of 53.4 million cattle, 25.5 million sheep and 22.7 million goats (CSA, 2011). Thus, Sheba leather industry has a great advantage which awaits exploitation in terms of natural resource of the country.

Further, the Ethiopian leather industries (Both tanning and shoe footwear) imported many of their component parts from abroad. Sheba leather industry plc as part of the leather sector imports many of its component parts from foreign suppliers’. As reported by the top managers the company imports all components and accessories of shoes with the exception of the upper part from foreign suppliers. The managers also mentioned that the inferior /poor quality of raw materials from domestic suppliers is the cause of imports from abroad. While engaging in this transaction the company faces raw material shortage due to delays in the delivery process from foreign suppliers’. As a result of these delay and inferior quality the company fails to operate at its full potential and unable to reduce its overhead cost and achieve economies of scale which have a great impact on the success and overall competitiveness of the firm.
On labour availability and skill level, the increase in the number of population and the existence of large unemployment rate helps the company to have an advantageous access to the labor forces. As per the response from managerial heads and general manager of the company, the company has enjoyed an easy access especially to the unskilled labour force even if the level of wage is a constraint to maintain them. The difficulty that the company faces in relation to labor rested on obtaining skilled labour due to the inconvenience of workplace and scarcity of skilled labour force to the sector in the labour market. The inconvenience of the work place is attributed to the remoteness of the location of the company from the country’s capital city in which most of the leather and footwear factories situated.

On transportation access and cost, the remote location of the company creates a disadvantage since it involves high cost of transportation to transfer the products to the international market through the port of Djibouti compared to other competitors situated around Addis Ababa. However, as a sister company of “EFFORT” it has an access to a reliable transportation by Trans Ethiopia PLC which helps them to avail their products to the international market when there is an order.

On telecommunication service, Most of the company’s communication process with foreign suppliers and customers takes place and facilitated through the means of telecommunication services (i.e use of internet, websites, and emails). Thus, the service of telecommunication has its effect in getting an access to foreign markets and customer request. The service is also crucial for the company in getting information about export market, new technology and about product design in addition to communicating with foreign suppliers and customers which shows the absence of well established distribution outlets by the company in the foreign market segment and the lack of any alliance with those who are engaged in marketing similar product in the international market.

On electric power supply, from the overall country perspective the sector is hindered by the shortage and interruption of power supply and it result in the operation of the sector below its potentials. Similar with other domestic firms the company is running its operation at low capacity due to power shortage and interruptions. Compared to foreign competitors the company didn’t have any other alternative source of power supply but, the great emphasis given by the government of Ethiopia to the establishment of mega projects in electric power makes it promising to the company to better expand its production capacity in the near future.

On talent and education, from country’s level the sector is hindered by lack of talented designers and senior manager in the area due to low wage rate, scarcity of labour, nature of the job and inconvenient work place. But the company’s investment on employee training and the use of expatriate managers on the bases of ‘management contact’ facilitate the transfer of knowledge and acquainting the employees with skills necessary for improving the quality and operations that contribute to the firm’s competitiveness.

On Capacity utilization, currently the capacity level utilized by the company lies below half of its full capacity (50 percent). Though various reasons provided for this underutilization, Raw material shortage is the first major reason for not utilizing the company’s full capacity as reported by all managers, Lack of market for the product is reported as the second main reason and the shortage of working capital tends to be the third reason for not utilizing the full potential of the company.
On home demand condition, the current estimated 80 million population of the country with its increments and the continuing increase of the national economy and resident income will strongly and directly improve the demand for shoe. In contrast to these facts the emphasis given by the company rests on foreign market. Up to 60 percent of the company’s products are destined to the international market and sometimes the percentage rise up to 75-80 percent. The company’s products are mainly sold to Europe and Asian countries. The local market is not exploited as an opportunity by the company so far due to the limited distribution outlet used by the company. This shows that the firms product destination is very limited, particularly when one is aware of the stiff competition exit in these market due to the small and stagnant population size of European markets and the growing focus of the Asian country firms to the same sector for the benefit of job creation, foreign direct investment in the sector and revenue generation associated with these companies. But, the limited market involvement in the world market might also show the great opportunity that exit for the company to exploit in the near future.

On Firm strategy, structure and rivalry, Ethiopia shoe industry has formed a cluster but the level of clustering is still low and the degree of integration between the firms is not strong. The low level of clustering result firms to operate on individual basis in dealing with issues of maintaining the leather quality, creating image to the country’s leather products, dealing with foreign market information, which entirely affect the competitiveness of the company since each company deal with the same type of problem with equal degree again and again instead of integrating action on a country base. As a result, the company encountered problems in dealing with foreign customers and foreign supplier and problems related to raw leather suppliers due to the lack of well established leather collectors and supplier and the temporariness of supplies of hides and skins attached to major holidays. As a strategy majority of the department managers and the general manger and the deputy’s believed that Investment in advanced production technology is the first focus in which the company’s strategy will emphasize on to improve the company’s competitiveness and improving the networks with input suppliers is the second issue that is equally agreed by respondents. Expanding the total production capacity and Advertising and marketing is mentioned as the other strategy that the department heads and managers believe crucial for the improvement of company’s competitiveness. Computerized design and manufacturing is the least emphasis given by respondents to improve competitiveness, which affirms the very nature of the sectors labour intensiveness. The company confronted fierce competitions both in domestic and international market from two countries. As per the managers reply the company faces strong competition from European and Asian country firms. the company’s involvement in these two countries market (European and Asian counties) resulted in facing fierce competition from companies found in these country who operate in their home market and who enjoyed quick access to the market (European firms) and Asian country firms who have enjoyed relative reduction in labor cost than that of Europeans.

On related and supporting industries, the reply from respondents confirmed that the company faced serious problems on the availability, quality and cost of inputs. Absence of locally produced inputs at the required quantity, inferior quality of raw materials in domestic market and unreasonable price compared to its quality forces the company to depend on foreign inputs. This dependence of the company for its input to foreign suppliers influenced the strategies used by the company for reducing the costs of it operation. However, the increase involvement of foreigners in the sector is promising to the company in order to get the accessories required for shoe manufacturing. Statistical figures from the Central Statistical Agency (CSA) show that
the number of large and medium scale manufacturers in the leather and leather products industry (LLPI) has increased from 53 to 114 between 2000 and 2010.

On government support and chance, the Ethiopian government has set for itself a long term vision of becoming a middle income country by 2020-2023 and meeting the MDGs in 2015. Several government policies and plans are in place to fulfill the larger goal of meeting the MDGs and the vision of becoming a middle income country. The latest is the Growth and Transformation Plan (GTP) that spans a period of 2010/11-2014/15 and emphasizes agriculture and industry as main drivers of growth8 (FDRE, 2010). There are different opportunities in the shoe industry especially for exporters like tax and quota free access of market through different preferential markets (AGOA, EBA, etc) and bi-lateral trade agreements (Ethio-Sudan, etc). These preferential markets considered as a necessary tool for poor countries to support their development process. And also low labour cost and high domestic demands are the other opportunities in the sector.

Advantage possessed by the Company: Relative strong financial capability, use of up-to-date machineries and good access to low labor cost are reported to be the major advantages that the company enjoyed compared to the domestic firms engaged in the same sector. While low labour cost, Strong government support/export incentives, availability of ample resources and ease of access to foreign markets /preferential markets are reported as the advantages that the company enjoyed compared to the foreign competing firms in respective orders. Accordingly respondents reply that the production of differentiated products, employees’ awareness and commitment for competitiveness, quality of the firm’s product are the main reason for the strength of the company, the other reasons that the respondents mention include low cost of the company’s products, good customer relationship and the presence of reliable suppliers.

Disadvantage faced by the Company: As reported by the managers, lack of skilled manpower, limited distribution system/outlet which hindered the company from possessing a strong home demand condition are the disadvantages that the company faced compared to domestic firms. Whereas high dependence on imported chemicals and accessories, financial incapability and weak domestic demand are the disadvantages faced by the company compared to foreign firms. Accordingly the response from managers revealed that strict quality standard of foreign markets, delay in import of raw materials and export of finished products, lack of information by customers on the company’s brand are reported as factors that prevents the company from coping up with competitive pressure especially from foreign competing firms. However, the company currently invests on training of workers to improve and maintain the quality of its products.

Analysis of the company’s competitiveness using Porter’s Five Forces model

Threats of new entrants: When examining the leather sector more closely, one can understand that it is a labor intensive industry while requiring huge amount of capital especially when setting up or acquiring new production plants. This high sunk cost cannot be recovered if the firm would closed-down and exit the market. Thus act as a barrier to entry for many small competitors. But the abundant presence of raw hides and skins in the country, the availability of labor force at low cost, the focus given by the government to the sector’s export potential and the continued increase in the number of population of the country (as a means of creating strong and sophisticated home demand base) results in the establishment of new giant factories owned by foreign firms particularly that of Chinese firms. Thus, high sunk cost doesn’t function as entry barrier to giant firms like that of small firms. Entry barriers are also not
functional to the company due to low capacity utilization of the company in which the company fails to benefit from economies of scale.

Rivalry among competing firms: As the product is a basic requirement for everyone great numbers of firms are competing in both domestic and international markets, as a result the company faces stiff competition. The financial strength firms have and presence of skilled labor/ talented designer in European/Asian countries help European and Asian firms to strengthen their position and reduced the relative gap enjoyed by the company(Sheba leather industry) in possession of abundant natural resource(hides and skins).

Bargaining power of suppliers: Domestic suppliers are the main source for the company’s hide and skin but there is no an organized existence of hide and skin collecting firms which posed a threat to the company since the company deals on individual bases with these suppliers and the temporary availability of hides and skins on holidays provide the supplier the capability to command premium price for their product. Thus, domestic suppliers have a great bargaining power in dealing with the company. However, the bargaining powers of foreign suppliers are low due to the existence of many suppliers of chemicals and shoe accessories to the company in foreign market. This availability of many suppliers provides the company a great bargaining power in dealing with foreign suppliers.

Bargaining power of Buyers: Mainly, products of the company are sold to large manufacturers on sub contracting base, by contracting brand level companies and by contracting retailers in the market, showing that buyers of the company’s products are diversified. As a result the company offsets the bargaining power of one groups of buyer by selling more to other group of buyer which ultimately reduce the bargaining power of buyer while increasing the company’s bargaining power.

Threat of Substitute Products: The increase in the number of competitors in shoe production both nationally and internationally and the relative similar price of products to customers created a significant threat of substitutes to the products of Sheba. Thus we can conclude that there is high threat in case of substituting the products of Sheba by other competitors.

CONCLUSION

With regard to natural resource the company benefited from the abundance livestock resource of the country even if the resource is not fully utilized. The company is facing shortage in skilled labor and talented designers which could enable the company to compete in a sustainable manner in its market segments which is attributed to the remoteness of the company and low wage rate. The company’s production capacity is affected greatly by shortages in one of the factor condition of raw materials. The delays occurred in the delivery process between the company and foreign suppliers of shoe accessories and chemicals used for the tanning portion influence the company’s ability to deliver the products on orders, which negatively affect the company’s competitiveness. The high importation of Chinese shoes in to the country, low price of the products coupled with the diversified range of choices available and the preference given to foreign products by the local customers affect the company’s home demand condition. The company also faced problems on the availability, quality and cost of inputs. Absence of locally produced inputs at the required quantity, quality and reasonable price make the firms to produce below their production capacity.
Implications for the Company

Since the company is operating below its potential due to lack of market, it is crucial to diversify the destination of the company’s product i.e., making use of the great opportunities available from the untapped market of many newly developing countries and those middle east countries in which they base their entire demand on the imported products for their need of shoe.

The low home demand base of the company significantly affected the company’s capacity utilization and ultimately its competitive bases. So it is better for the company to invest in the establishment of distribution outlets throughout the country to make use of the company’s potential and to build a strong customer base in the domestic demand. The establishment of distribution outlet in different part of the country will help the company to get immediate feedback from various and sophisticated customers about the product quality, design and preferences which in turn lead the company to be more innovative and more competitive in its market operation all over the world.

Great emphasis needs to be given to promote the company’s products through television, radio and printed Media especially in the domestic market. The general public must be communicated through all possible means about the product of Sheba leather industry and the aware of customers must be increased to alleviate problems related with weak domestic demand and limited distribution outlets.

The company need to take initiative, to strength the clustering of companies who involved in the same sector, to be more beneficial from the sharing of information that will help to take lessons from problems faced by firms in the cluster and not to repeat the mistakes made by firms again and again. The company need to work in collaboration with Leather Industry Development Institute and other collaborating organization to get reliable supplier of accessories and components.

The company need to collaborate with established higher institution in providing short term and long term training and skill development for improving the employees skills and competence in designing and maintaining the products quality while controlling the costs associated with it.

The company needs to form an alliance with foreign firms who supply chemicals and shoe accessories to the company. The exited distribution channel used by these foreign firms will help the company to avail the products to customers in these countries and to get constructive feedback from its foreign market segment that will help in developing products and market strategies that fit to the segments.

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