Strategic Analysis of Somani Fabrics

A Master Dissertation
by

Sandeep Gupta
(ID No. 1080652)

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In the end I am thankful to all those who helped me in completing the task.

Sandeep Gupta

April 2000
STATEMENT

'This dissertation contains no material that has been accepted for the award of the another degree, diploma or award at any other University or other educational institution. To the best of my knowledge and belief, it contains o material previously published or written by another person or persons, except where due references has been made.'

Sandeep Gupta
ABSTRACT

World business has transformed from sellers' market to buyers' market. This has led to an increase in competition within the domestic market. Domestic companies are now looking for overseas markets for their survival and growth. Information and technology have played a very vital role in bringing the world closer. Access to foreign markets is virtually at the fingertips of producers. Domestic companies are increasingly using this technology to seek their access. Australia is one of the biggest users of information technology. The Australian economy is fairly stable. The opening up of the Australian economy and its economic growth have attracted many foreign companies. There are enormous opportunities in Australia which are yet to be tapped by Indian companies. Hence, Somani Fabrics has a fair chance to take advantage of the growing Australian market.

The clothing export industry in India has shown an inspired growth and performance in a short span of time, reaching an export figure of 4.5 billion US$ during 1995-96 leaving all the other products far behind and by contributing over 16% of the national foreign exchange earnings. It is also credible that phenomenal export growth in this sector has been possible despite quota restrictions. However, such restriction would no longer be there beyond 2005. A golden opportunity exists for Indian garment industry to penetrate new markets.

The study begins with an introduction identifying the purpose, benefits and scope of study etc. In the subsequent chapters, the study reviews theories relating to strategic management, internal and external environment analysis and theories relating to various tools for development of different strategies. With the help of SWOT analysis many strengths, weaknesses, opportunities and threats for Somani Fabrics are analysed. This information is used for the development of an appropriate strategy, which could eliminate these weaknesses and threats. TOWS matrix and SPACE Matrix generates several strategies for Somani Fabrics. Each of these strategies is evaluated for selection purposes. In conclusion, a strategy is recommended to Somani Fabrics. It is also recommended that Somani Fabrics should undertake future research before entering Australian market.
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<tr>
<td>Rs.</td>
<td>Indian Rupees</td>
</tr>
<tr>
<td>p.3, pp.33-35</td>
<td>Page(s)</td>
</tr>
<tr>
<td>Pty</td>
<td>Private</td>
</tr>
<tr>
<td>Aust.</td>
<td>Australia</td>
</tr>
<tr>
<td>Ltd.</td>
<td>Limited</td>
</tr>
<tr>
<td>AUD, A$</td>
<td>Australian Dollar</td>
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<tr>
<td>bn</td>
<td>Billion</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>USD, US$</td>
<td>Dollar of United States of America</td>
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<tr>
<td>GNP</td>
<td>Gross National Product</td>
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<tr>
<td>NSW</td>
<td>New South Wales</td>
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<td>Vic.</td>
<td>Victoria</td>
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<tr>
<td>Qld.</td>
<td>Queensland</td>
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<tr>
<td>SA.</td>
<td>Southern Australia</td>
</tr>
<tr>
<td>WA</td>
<td>Western Australia</td>
</tr>
<tr>
<td>Tas.</td>
<td>Tasmania</td>
</tr>
<tr>
<td>NT</td>
<td>Northern Territory</td>
</tr>
<tr>
<td>ACT.</td>
<td>Australian Capital Territory</td>
</tr>
<tr>
<td>CER</td>
<td>Closer Economic Relation</td>
</tr>
<tr>
<td>TCF</td>
<td>Textile Clothing &amp; Footwear</td>
</tr>
<tr>
<td>ABS</td>
<td>Australian Bureau of Statistics</td>
</tr>
<tr>
<td>PC</td>
<td>Personal Computer</td>
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<tr>
<td>MOU</td>
<td>Memorandum of Understanding</td>
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<td>ISO</td>
<td>International Standard Organisation</td>
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Chapter I

Strategic Analysis of Somani Fabrics

Introduction
Global Marketing is a process of focusing an organisation's resources on selection and exploitation of domestic and foreign market opportunities consistent with and supportive of its short and long-term strategic objectives and goals (Toyne & Walters 1993). According to Levitt (1993), if a company fails to adapt to globalisation, then Darwin's law of natural selection would proceed with its course. Thus the company should look for overseas markets with its quality product and market the same effectively and efficiently. To be effective and efficient, a strategic plan is needed.

According to David (1997), Strategic Management is the art and science of formulating, implementing and evaluating cross functional decisions that enable an organisation to achieve its objectives. For strategic formulation, implementation and evaluation the critical issues within the organisation are evaluated with respect to external environment. A similar approach is adopted in this dissertation for an Indian Garment Export company named Somani Fabrics.

1.2 Background

Mrs. Pushpa Gupta and Dr. Prem Narain Somani founded a partnership firm called Somani Fabrics during the year 1969. The firm is based in Jaipur. Initially the firm started with printing of the fabrics for recognised, established exporters. Dr. Prem Narain resigned and Mrs. Manju Maheshwary was taken as a new partner. Mr. Gopal Maheshwary and Mr. Anil Maheshwary, who shared their vision, also joined them.

The firm diversified its activities from printing of fabrics to export of ready-made garments. The dynamism of partners and unflinching trust of the buyers nurtured this company from infancy to the status of a full-fledged government-recognised 'Export House' exporting high quality ladies casuals and fabrics. The total turnover of the company is in excess of AUD 2.16 million for the year ended 1998.
1.3 Justification of study

For approximately three decades, Somani Fabrics has been exporting primarily to Japan. Over the last three decades, world trade has undergone a unprecedented change. The distances between countries have reduced due to faster transportation, communication, and information technology. This has resulted in increased global competition. There has been a major shift in the world-wide clientele. So far the firm has maintained its established clients. In the light of increasing competition it is felt that there is a need to explore other export opportunities.

Somani Fabrics has been exporting its goods to quota free countries like Japan, Taiwan and South Korea. Australia also happens to be a quota free country. Thus the study is aimed at identifying the export opportunities and formulating a strategic export plan to enter the Australian market.

1.4 Purpose and objectives of the study

The primary purpose of this study was to look for export opportunities in Australia and 'to formulate an export plan for its ready-made garments to Australia'. 'Objectives represent a managerial commitment to achieving specific performance targets by a certain time' (Thompson & Strickland 1996, p. 30). Each firm must have an objective for the future growth. The objective of the firm helps in clarifying its vision. It also acts as a foundation for the success of the project. Well-defined objectives and clarity of vision do not necessarily guarantee the success of a project. But well-defined objectives and vision help the firm to manage its financial and management operations more efficiently and effectively.
Strategic Analysis of Somani Fabrics

The objective of the dissertation were achieved through focusing on various issues mentioned hereunder:

- examine the current position of the company,
- examine the company's strengths and weaknesses,
- examine the political, economical, social and technological factors of the Australian market,
- examine the opportunities and threats in the Australian market,
- conduct a SWOT analysis,
- formulate a strategy using Porters, Space Matrix and TOWS matrix, and
- formulate an export plan for the company.

1.5 Benefits of the study

The study will help the company in locating opportunities and benefits namely:

- In identifying its strengths and weaknesses,
- In identifying the opportunities and threats in Australia, and
- In the expansion of business.

1.6 Scope of study

The scope of this study was to formulate a strategic plan for Somani Fabrics as to how the company can enter the Australian market. The formulation of a strategic plan was to be based on the outcome of the internal and external environment analysis.

1.7 Conceptual frame work

The conceptual framework is shown in the figure 1.1, describing the approach of the study and the preparation of the export plan. This model analyses the company internally and externally in order to highlight the current state of affairs of the company.
1.8 Research methodology

1.8.1 Research approach

The purpose of the research was to evaluate the performance of the Somani Fabrics and the Australian garment industry. The evaluation of the research data was used in formulation of a strategic direction for Somani Fabrics. In order to achieve the objective of the study, the following approach was used in studying the issues.
Strategic Analysis of Somani Fabrics

- **Internal analysis**
  
  For Internal analysis the researcher took various steps which are as follows:
  a) establish initial contact with the company,
  b) make in-depth analysis of Somani Fabric's annual reports ,
  c) analyse the mission and goals of Somani Fabrics, and
  d) conduct a survey in the form of a Questionnaire through email and phone calls.

- **External analysis**
  
  For external analysis the researcher took various steps which are as follows:
  a) study different business reports and literature such as IBIS world reports, publications of Australian Bureau of Statistics and Country Report,
  b) obtain and use the necessary information from various internet sources, and
  c) analyse the retail garment industry of Australia in general.

1.8.2 Data gathering

For the purpose of this study the researcher collected the data from two major sources, as follows:

- **Primary data**

  For the purpose of the study the primary data were collected through interviews with and telephone calls to, the partners, senior managers, and administrative and supervisory staff of Somani Fabrics. Various emails and questionnaires were sent to them. The detailed questionnaire contained open-ended questions, which the respondents answered in their own words. The detailed questionnaire is included in appendix 1. The purpose of the questionnaire was to gather information regarding the company’s strengths and weaknesses and the vision of the company. The results and main findings of the interviews and questionnaire have been included in chapter 3.

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Secondary data

Secondary data were obtained from various sources such as magazines, annual reports of the company, newspapers, the internet, statistical data, budgets, brochures, bulletins and other literature. With the help of primary and secondary data the author derived conclusions and provided recommendations.

Data sources

The information for the research has been obtained from the following:

- Industry Journals,
- Industry Association,
- Export Promotion Counsil,
- Australian Bureau of Statistics,
- Manufacturer, and
- Importers.

1.8.3 Data analysis and interpretation

Qualitative data are descriptive. These data are generally used to evaluate a situation. In many cases these data provide the catalyst for more detailed quantitative analysis (McCarthy & Perreault 1990).

Quantitative data are in the form of percentages, statistical information and averages. These data help us in providing answers to questions like how much? and how many? etc. The analysis of these data involves testing the relationship between the quantities (Harrison & Tamaschke 1984).
The research undertaken comprises of both qualitative and quantitative types. These data are related to each other and can be broadly classified into two categories, namely, primary data and secondary data.

1.9 Limitations of the study

This study was limited to the macro overview due to certain limitations:

- The latest annual report of the firm was lacking. This information will be available only after the finalisation of the statutory audit. Due to limitation of time, incorporation of these reports was restricted.
- The latest batch of secondary data was not available on the internet because they are not periodically updated.
- The comparability of data from different source was difficult because of the reporting format.
- Competitor's information was subject to limitations. Competitors were reluctant to share information on the matter such as turnover, margin of profit and product information because exports are highly competitive.

1.10 Structure of the dissertation

Chapter - 1: Introduction

This chapter is an introductory chapter and consists of company overview, justification, objective, benefits, scope, conceptual design, research methodology, and limitation of the study. It also gives the overall structure of the strategic project.
Chapter -2 Literature review

A critical review of literature related to strategic management theory and its benefits to the organisation is presented in this chapter. It also uses and explains various models and tools for strategic management and planning.

Chapter –3 Internal analysis

Internal analysis of Somani Exports is discussed in this chapter. It consists of analysis of sales, marketing, production, financial ratios, its objectives and key success factors. The strengths and weaknesses of the company form the basis of the SWOT and TOWS analysis.

Chapter -4 External analysis

This chapter deals with the external environment analysis. It analyses the Australian Garment industry and Australian environment using different analytical models, such as PEST analysis and Porter's diamond model. The external opportunities and threats are identified for Somani Fabrics.

Chapter – 5 Strategic implications and directions

This chapter flows from chapters 3 and 4. SWOT analysis and TOWS matrix are used to identify strategies from the strengths, weaknesses, opportunities and threats. Thus with the help of TOWS matrix, various strategies are formulated by matching strengths, weaknesses, opportunities and threats. The outcome of TOWS matrix will identify the strategic direction.
Chapter -6  Strategy implementation

The implementation of a strategic export plan is presented in this chapter. Topics such as development of firm's annual objective, policies and resource allocation are discussed.

Chapter –7 Conclusion and recommendation

This last chapter provides an overall assessment of the project and derives conclusions and provides recommendations as well as identifies the area for future research.

1.11 Conclusion

The dissertation is divided into seven chapters namely introduction, literature review, internal analysis, external analysis, strategic implications and directions, strategy implementation and conclusion and recommendation. While reader is reading the dissertation the limitations of the study should be kept in mind along with the identification of areas for future research. It is hoped that Somani Fabrics will find this dissertation on strategic analysis very useful in actual implementation and business expansion in Australia.
Chapter II

Strategic Analysis of Somani Fabrics

Literature Review
2.1 Introduction

This chapter overviews the related literature used in strategic development and links the conceptual framework presented in chapter one. It concentrates on strategic management theory, its need, characteristics and various tools used in strategic management.

2.2 Definition of strategy

Strategy is a comprehensive and consistent pattern of decision and action actually made to gain a sustainable competitive advantage (Perry, Gibson & Dudurovic 1992).

Strategy is the game plan management has for positioning the company in its chosen market arena for competing successfully, pleasing customers, and achieving good business performance (Thompson & Strickland 1996).

2.3 Strategic management

'Strategic management is the process of identifying, choosing and implementing activities. That will enhance the long-term performance of an organisation by setting direction and by creating ongoing compatibility between the internal skills and resources of the organisation, and changing external environment within which it operates' (Viljoen, John 1996, p. 8).

David (1993, p. 5) defines strategic management "as an art and science of formulating, implementing and evaluating cross functional decisions, that enable an organisation to achieve its goals". Thus the theory of strategic management is a process which revolves around identification, development, and implementation of organisational plans. Various questions such as: Where are we now? Where do we want to be? and How are...
we to get there? are asked. The analysis of these questions helps the firm to ensure the long-term success of the organisation.

2.4. Strategic management process

Strategy implementation is the process of putting the plan into action and makes it possible to realise the fruits of the intended strategy (Dess & Miller 1993). There are three main components of strategic process.
1. Strategy analysis,
2. Strategy formulation, and

These three different stages are interrelated and are processed in a logical sequence. Figure 2.1 illustrates the different stages of strategic management.

2.4.1 Strategic analysis

Strategic Analysis involves analysis of relevant information, which can be broadly classified into following categories:

A) PEST
1. political,
2. economical,
3. social, and
4. technological climate,
B) SWOT
1. strengths,
2. weaknesses,
3. opportunities, and
4. threats.

This information is used to answer the key questions regarding the companies' external macro and immediate microenvironment. The analysis provides an understanding of the current situation of the organisation and leads to a good strategic choice.

2.4.2 Strategy formulation

The second stage of strategic management is strategy formulation. Strategy formulation consists of two interrelated processes, strategy analysis and strategy choice. During the process, various key questions are answered relating to industry and the company. The outcome of the answers helps the firm in generating different alternative strategies. These different strategies are then carefully evaluated in order to suit the best need of
Strategic Analysis of Somani Fabrics

the organisation. While several techniques for strategic management are available, these must be carefully evaluated and selected on the basis of the unique requirement of each organisation at a particular point of time (Viljoen 1996, pp. 39-40).

Figure 2.2 illustrates that a good strategic thinking and strategic analysis leads to good strategic choices. 'This provides a way of thinking strategically about any industry's overall situation and drawing conclusions whether the industry represents an attractive investment for company's fund' (Thompson & Strickland 1996, p. 61).

**Figure 2.2 How strategic thinking and strategic analysis leads to good strategic choices.**

<table>
<thead>
<tr>
<th>THINKING STRATEGICALLY ABOUT INDUSTRY AND COMPETITIVE CONDITION</th>
</tr>
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<tbody>
<tr>
<td><strong>The Key Questions</strong></td>
</tr>
<tr>
<td>1. What are the industry's dominant economic traits?</td>
</tr>
<tr>
<td>2. What is the competition like and how strong are each of the competitive forces?</td>
</tr>
<tr>
<td>3. What is causing the industry to change?</td>
</tr>
<tr>
<td>4. Which companies are in the strongest/ weakest competitive position?</td>
</tr>
<tr>
<td>5. Who is likely to make the strategic move next?</td>
</tr>
<tr>
<td>6. What key factors will determine competitive success in the industry environment?</td>
</tr>
<tr>
<td>7. Is this an attractive industry and what are the prospects for the above average?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>THINKING STRATEGICALLY ABOUT A COMPANY'S OWN SITUATION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Key Questions</strong></td>
</tr>
<tr>
<td>1. How well is the company's present strategy working?</td>
</tr>
<tr>
<td>2. What are the company's strength and weakness, opportunities and threats?</td>
</tr>
<tr>
<td>3. Are the company's costs competitive with rivals?</td>
</tr>
<tr>
<td>4. How strong is the company's competitive position?</td>
</tr>
<tr>
<td>5. What strategic problems need to be addressed?</td>
</tr>
</tbody>
</table>

**WHAT STRATEGIC OPTIONS DOES THE COMPANY REALISTICALLY HAVE**
- Is it locked into improving the present strategy or is there room to make major changes?

**WHAT IS THE BEST STRATEGY**

**The Key Criteria**
- Does it have good fit with the company's situation?
- Will it help build a competitive advantage?
- Will it help improve company performance?


Presented by Sandeep Gupta
2.4.3. Strategy implementation

The third stage of strategic management is the strategy implementation. It is a process of putting the plans into action. 'Strategy implementation is the management of various organisation tools that directs and controls the use of the firm's resources in pursuit of chosen strategy' (Pearce & Robinson 1982, p. 285).

The implementation process requires a firm to establish its annual objectives, devising policies, motivating employees and allocating resources for the implementation of the strategic plan. These consist of long-term and short-term objectives. The short term objectives should be in conformity with those of the long-term. On the basis of the objectives, the organisation uses and allocates its scarce resources in the most efficient manner. This usually involves capital budgeting for allocation of funds, people and equipment to the new project. This is important due to the fact that 'the greatest strategy is doomed if it is implemented badly' (David 1995, p. 249). For effective implementation, it is necessary to review and have regular feedback.

2.5 Internal analysis

PAST analysis includes people, activities, structure and technology and is considered as the most important tool in strategic planning. It provides in-depth study of the internal analysis of the firm.

2.5.1 People

In an organisation, people from different fields of life work together. Highly-skilled employees are deemed to be an asset to an organisation. Since these employees have a tendency of move between the organisations for the betterment of their lives or services, it is therefore most important to look into the employee's expectations and their attitude
Strategic Analysis of Somani Fabrics

towards the job and firm. Meeting their requirements will help the organisation in retaining these employees. Since the strategy is generally based on organisational skills, the presence of these employees will have a direct effect on the firm's strategy.

According to Aaker (1995) for each strategy it is important to know what is its depth and quality? What are the employee's expectations? What are their attitude towards the firm and their jobs? How many people with what experience, depth of knowledge, and skills are needed for:

- functional areas,
- product or market area,
- new product programme,
- management of particular types of people,
- management of particular types of operations, and
- management of growth and change.

2.5.2 Activities

Organisational functions primarily consist of five basic functions, namely planning, organising, staffing, motivating and controlling. These activities are explained in detail below:

- **Planning**

  Each organisation has to face the uncertainty of the future. In order to cope up with uncertainty, proper planning is needed. With the help of proper planning, the likelihood of achieving the desired result increases. Planning is the foundation stone of strategy. It is therefore important for an organisation to have the involvement of all sections of managers.
Strategic Analysis of Somani Fabrics

- **Organising**
  Organising means defining tasks such as who does what, how it is to be done and who will report to whom. The purpose of defining the task is to achieve the organisational goals by combined efforts. The organising activity is performed in a sequence. It involves breaking down the task into jobs, followed by combining these jobs and forming various departments and finally delegating the authority to various personnel.

- **Staffing**
  Staffing is also popularly known as human resource management. This includes activities such as recruiting, interviewing, selecting, training, placing, promoting, demoting and dismissing the employees.

- **Motivating**
  Motivation is the inner state of mind of the employees. To some extent, these employees can be motivated through incentives. Incentives can be in the form of monetary and non-monetary rewards. Carrot and stick rule also helps in increasing the motivation of the employees. These incentives help the organisation to accomplish specific objectives.

- **Controlling**
  In an organisation there are various departments. Each such department is vested with authority and responsibility. The delegation of the authority acts as a controlling function. All the managers have controlling powers. They use these powers for actual and planned operations. Performance evaluation is made and if there is any deviation necessary corrective steps are taken to ensure inefficiency is minimised (David 1995).
2.5.3 Structure

The organisational structure helps in understanding the degree of decentralisation, the line of authority and direction of communication. It is a mechanism by which the organisational task is accomplished. Both centralisation and decentralisation have their own merits and demerits. The structure of an organisation depends upon the nature of the business strategy. Centralised structure is more appropriate when there are limited number of closely-related product lines. In case of decentralised organisation, it will have autonomous business units based on product or marketing groupings, with the ability to develop strategies in response to the needs of the market (Aaker 1995).

2.5.4 Technology

Over the last two decades there has been a revolution in the field of technology—conquering outer space with unmanned satellites, development of satellite networks, invention of wonder drugs, use of robots and lasers, developments in the field of information technology, electronics fund transfer, and internet. All these have direct impacts upon business organisations. Use of latest technology helps an organisation in improving the quality of products, and increasing the value of production, leading the company to achieve a competitive edge.

2.6 External environment analysis

'The firm's External environment consists of the sum total of all conditions and forces which affect the strategic options of a business but which are typically beyond its ability to control' (Pearce & Robinson 1982, p. 63). 'Major changes in the external environment are infrequent, but when they occur they tend to have a profound impact on the organisation' (Viljoen 1994, p. 191).
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'The industry environment consists of variables affecting the immediate competitive situation of the business such as competitive position, customers, suppliers, creditors and the labour market. The Macro environment is composed of a set of forces that are beyond the control of an individual organisation. It encompasses geographic, political, social, technological and economic variables' (Viljoen, J 1994, p. 191).

Figure 2.3 shows the environmental variables affecting the organisation. The figure shows the key external factors at both industry levels as well as at macro level that will have an impact on the organisation as a whole.

**Figure 2.3 Environmental variables affecting the organisation**

Strategic Analysis of Somani Fabrics

According to David (1997), External forces can be classified into five broad categories:
1. political
2. governmental and legal forces
3. social, culture, demographic and environmental forces
4. technological forces
5. competitive Forces

2.6.1 PEST analysis

PEST Analysis (figure 2.4) deals with the external environment of the host country. It consists of four factors. They are political, economic, social and technological. These factors are beyond the control of the organisation and any change in these factors may directly affect the organisation and its strategies.

Source: Dr Thandi 1998, International Business-Class Handout, Swinburne University of Technology, Semester 1, no. 2, p. 7.
Strategic Analysis of Somani Fabrics

- **Political**
  It reviews laws, government initiatives, public expenditure control, employment regulation, health and safety legislation, and machinery of the government. The major concern here is to determine if there are any proposed laws that may be introduced which are likely to impact on strategic planning. Introduction of new legislation or withdrawal of any incentive can severely change the industrial scenario overnight. It is therefore important for an organisation to monitor the political and legal environment.

- **Economical**
  It reviews trends in economic growth, employment, costs, living standards, competition and international trade. The objective of the review is to identify and anticipate changes in economic conditions and policies and how these changes will affect the future of the organisation. The major economic factors, which are considered, are gross domestic product, inflation, interest rates, currency exchange, and monetary policy. Economic forecasting is thus an essential task as it reviews the impact of the economy on the society as a whole and on the industry under which the organisation operates.

- **Social**
  It reviews the population, demographic trend, changes in the lifestyle, expectation of the customers, expectation of the employees, lobby, groups family structures and attitudes of the society. Thus this review combines three elements i.e. demographic, sociological and cultural which are concerned with people and their behaviour. The main objective of this review is to determine the significance of the population changes on the nature of the customers and their purchasing behaviour.
## Table 2.1 Evaluating selected components of the macroeconomic environment

<table>
<thead>
<tr>
<th>Economic Considerations</th>
<th>Political/Government Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Growth rates</td>
<td>• Legislative changes</td>
</tr>
<tr>
<td>• Inflation</td>
<td>• Political stability</td>
</tr>
<tr>
<td>• Interest rates</td>
<td>• Government as a supplier</td>
</tr>
<tr>
<td>• Exchange rate</td>
<td>• Government as a buyer</td>
</tr>
<tr>
<td>• Credit availability</td>
<td>Government as competitor</td>
</tr>
<tr>
<td>Foreign exchange availability</td>
<td>-------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>• Tax rates</td>
<td>-------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>• Import/export duties</td>
<td>-------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Social/Demographic/Cultural</td>
<td>Technical Considerations</td>
</tr>
<tr>
<td>• Ecology and environmental quality</td>
<td>• Product technology</td>
</tr>
<tr>
<td>• Changing work values</td>
<td>• Process technology</td>
</tr>
<tr>
<td>• Changing demographics</td>
<td>• Decision support systems</td>
</tr>
<tr>
<td>• Religious beliefs</td>
<td>• General administration</td>
</tr>
<tr>
<td>• Level of education</td>
<td>-------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Cultural values</td>
<td>-------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>• Geographic scope of activities</td>
<td>-------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>


## Technological

It reviews communications at work, communications with customers, research expenditure and progress as well as new products. It is important to review this angle as technological changes occur fairly quickly. The rapid technological advancement has reduced the product life-cycle. Therefore the organisation must anticipate technological
Strategic Analysis of Somani Fabrics

changes that affect its customers and its own production methods. Flexibility is the most significant requirement for a strategic response to technological change.

PEST analysis is a useful device. The idea is that the organisation should collate as much relevant information as it can about the business environment. Information can be obtained from formal as well as informal sources. Information from formal sources includes that from newspapers, articles from trade journals, publications from trade associations, analysts reports, government publications, and economic forecasts. Informal information can be obtained from attending conferences and functions, or informal business gatherings. Once the information is collected the next step is to investigate the likely impact. The impact can be on the total size of the market demand and relative size of the market (Swords & Turner 1997, p. 61).

2.6.2 Porter's diamond model

Porter developed the diamond model for the nation's advantage (figure 2.5). It is commonly used to analyse the strengths of the industry. The four attributes are factor condition, demand condition, related and supported industries and firm strategy, structure, and rivalry.

Why are some companies, based in certain nations, more capable of innovation, and why do they pursue improvements, seeking an even more sophisticated source of competitive advantage? The answer lies in four broad attributes of a nation, attributes that individually and as a system constitute the diamond of nation advantage, the playing field each nation establishes and operates for its industries.

- **Factor condition**

According to Porter (1990) each nation possesses a unique set of factors of production specific to the nations. Factors of production are the inputs necessary to compete in any industry, such as labour, land, natural resources, and capital.
Strategic Analysis of Somani Fabrics

- **Demand condition**

Porter (1990) argues that the creation of national prosperity centres on a nation's ability to innovate and upgrade. Companies gain advantage against the world's best competitors because of pressure and challenge. Demand plays a significant role in sustaining competitive advantage over other countries. The composition and character of the home market usually has a disproportionate effect on how companies perceive, interpret, and respond to buyer's needs. This means that home demand provides an early warning indicator of buyer's need that will become widespread.

The anticipatory buyer's needs of home industry usually differ from those of the export industry. Market saturation forces companies to continue upgrading and innovating. Porter also mentions A saturated home market creates intense pressures to push down prices. Saturation escalates local rivalry, forcing cost cutting and a shakeout of the weakest firms. The result is often the emergence of fewer but stronger and more innovative local rivals (Porter 1990).

- **Related and supporting industries**

Internationally competitive related or supporting industry can create advantages in down-stream industries because the same cost-effective inputs can be used for production. This is because they produce high-quality products at high efficiency to serve those industries.
Firm strategy, structure, and rivalry

'The conditions in the nation govern how companies are created, organised and managed, and the nature of domestic rivalry' (Porter 1990, p. 71). In other words, nations will tend to be successful in industries where strategies, goals, organisation and management favoured by the national environment are well suited to the industry sources of competitive advantage. Domestic competition plays a very important role in a process of innovation and the prospect for international success. The rivalry at home creates pressure on firms to improve and innovate. They push each other to lower costs, improves quality and service and create new products and processes.
Strategic Analysis of Somani Fabrics

- **Chance:** Chance event mostly occurs from external environment and out of control of firms. It is the unpredictable shift due to various factors such as war, and inventions. This factor is important because it can result in a shift of competitive position of the industry (Porter 1990).

- **Government:** 'Government's proper role is as a catalyst and a challenger. Advocates of government help for industry frequently propose policies that actually hurt companies in the long run and only create the need for further assistance' (Porter 1990, p. 229). Though the government cannot create competitive industries, but it has significant power to make policies. These government policies influence each of the four determinants of national competitive advantage.

### 2.7 SWOT analysis

SWOT is an acronym for the internal strengths and weaknesses of the firm and the environmental opportunities and threats facing the firm. SWOT analysis is a systematic identification of these factors and of the strategy that represents the best match between them (figure 2.6). It is based on the assumption that an effective strategy maximises a firm's strengths and opportunities and minimises its weakness and threats (Pearce II & Robinson, Jr 1994, p. 178).

#### 2.7.1 Strengths

Strengths can be in the form of financial resources, image, market leadership, buyer's versus supplier's relations and others factors. They produce a distinctive competence, which gives the firm a comparative advantage in the market place (Pearce II & Robinson, Jr 1994).
2.7.2 Weaknesses

Weaknesses can be in the form of deficiencies in resource, skills, and capabilities. They seriously obstruct the firm's effective performance. They can be in various forms such as facilities, financial resources, management capabilities, marketing skills, and brand image, (Pearce II & Robinson, Jr 1994).

2.7.3 Opportunities

Opportunities are major favourable factors in the firm's environment. Opportunities may arise from identification of previously overlooked market segments, changes in competitive or regulatory circumstances, technological changes, and improved buyer or supplier relationships (Pearce II & Robinson, Jr 1994).

2.7.4 Threats

Threats relate to the external environment. They are a major unfavourable situation in a firm's environment. They affect the firm's current or desired position. They can be in the form of the entrance of the new competitor, slow market growth, increased bargaining power of the key buyer or suppliers, technological changes, and new or revised regulations, (Pearce II & Robinson, Jr 1994).

Figure 2.7 illustrates, how the SWOT analysis can be used to aid strategic analysis. The key external opportunities and threats are systematically compared with strength and weaknesses of the organisation.

Cell 1: It is the most favourable situation in which the firm faces several environmental opportunities and numerous strengths to pursue those opportunities. Hence here growth oriented strategies are developed to exploit the favourable match.
Strategic Analysis of Somani Fabrics

Cell 2: Deals with the firm's strength with respect to external threats. The firm uses its strengths to reduce the impact of external threats. The strengths of the firm do not guarantee that the firm can meet external threats.

Cell 3: Deals with a situation where the firm faces impressive opportunities but is constrained due to its internal weaknesses. This involves a process of overcoming internal weaknesses by taking advantage of external opportunities.

Cell 4: This is the least favourable situation, which the firm faces. The firm is exposed to major environmental threats coupled with its relative weaknesses. This type of situation requires the immediate attention of the firm to devise a strategy that reduces direct involvement in the product or market examined by the SWOT analysis.

Figure 2.6 SWOT analysis diagram

2.8 TOWS matrix

The threats-opportunities–weakness-strength (TOWS) Matrix (figure 2.7) is an important matching tool that helps managers develop four type of strategies: SO Strategies, WO Strategies, ST Strategies, and WT Strategies. SO Strategies use a firm's internal strengths to take advantage of external opportunities. WO Strategies aim at improving internal weaknesses by taking advantage of external opportunities. Some key external opportunities exist, but internal weaknesses of the firm prevent it from exploiting those opportunities. ST Strategies use a firm's strengths to avoid or reduce the impact of external threats. This does not mean that an organisation which is strong can meet threats in external environment face to face. WT are defensive tactics directed at reducing internal weaknesses and avoiding environmental threats. Organisations will generally pursue WO, ST, and WT strategies in order to get into a situation where they can apply SO Strategies (David 1993, pp. 217-218).

There are eight steps involved in constructing a TOWS matrix:

1. List the firm's key external opportunities,
2. List the firm's key external threats,
3. List the firm's key Internal strengths,
4. List the firm's key internal weaknesses,
5. Match internal strengths with external opportunities and record the resultant SO Strategies in the appropriate cell,
6. Match internal weaknesses with external opportunities and record the resultant WO strategies,
7. Match internal strengths with external threats and record the resultant ST Strategies.
   and
8. Match internal weaknesses with external threats and record the resultant WT strategies.
## Figure 2.7 TOWS matrix

<table>
<thead>
<tr>
<th>Strengths (S)</th>
<th>Weaknesses (W)</th>
</tr>
</thead>
<tbody>
<tr>
<td>List Strengths</td>
<td>List Weaknesses</td>
</tr>
</tbody>
</table>

| Opportunities (O) | | |
|-------------------| | |
| List Opportunities | SO Strategies | WO Strategies |
|                   | Use strengths to take advantage of opportunities | Overcome Weakness by taking advantage of opportunities |

<table>
<thead>
<tr>
<th>Threats (T)</th>
<th>ST Strategies</th>
<th>WT Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>List Threats</td>
<td>Use Strength to avoid threats</td>
<td>Minimise Weakness And Avoid Threats</td>
</tr>
</tbody>
</table>


### Importance of TOWS matrix

The purpose of this technique is to generate feasible alternative strategies, not to select or determine which strategies are best. Not all of the strategies developed in the TOWS Matrix, therefore, need to be selected for implementation (David 1995). The TOWS matrix provides four different types of strategies aggressive, conservative, defensive and competitive. The space matrix indicates the appropriateness of strategy for an organisation.
2.9 The strategic position and action evaluation (SPACE) matrix

The Strategic Position and Action Evaluation (SPACE) Matrix (Fig. 2.8) is another important matching tool. It indicates the most appropriate strategies for the organisation. The strategies can be in the form of aggressive, conservative, defensive, or competitive strategies. The axes of the SPACE matrix represent two internal dimensions: financial strength [FS] and competitive advantage [CA], and two external dimensions: environmental stability [ES] and industry strength [IS]. These four factors are the most important determinants of the organisational position (David 1995, p. 221).

Figure 2.8 Space matrix

<table>
<thead>
<tr>
<th>FS</th>
<th>Aggressive</th>
<th>Conservative</th>
</tr>
</thead>
<tbody>
<tr>
<td>+6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IS</th>
<th>+1</th>
<th>+2</th>
<th>+3</th>
<th>+4</th>
<th>+5</th>
<th>+6</th>
</tr>
</thead>
<tbody>
<tr>
<td>ES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-6</td>
<td>-5</td>
<td>-4</td>
<td>-3</td>
<td>-2</td>
<td>-1</td>
<td></td>
</tr>
</tbody>
</table>

Strategic Analysis of Somani Fabrics

The following steps are required to develop the SPACE Matrix:

1. Select a set of variables to comprise financial strength (FS), competitive advantage (CA), environmental stability (ES), and industry search (IS),

2. Assign a numeric value ranging from +1 (Worst) to +6 (best) to each of the variables that comprises the FS and IS dimensions. Assign a numeric value ranging from –1 (best) to –6 (worst) to each of the variables that comprises the ES and CA dimensions, and

3. Compute an average score for FS, CA, IS, and ES by summing the values given to the variables of each dimension and dividing by the number of variables included in the respective dimension.

2.10 Conclusion

This chapter explained all the theories that were used in formulation of the strategic plan of Somani Fabrics. The PEST analysis helps the organisation in evaluating the external environment, whereas the SWOT analysis evaluates the strengths and weaknesses of the firm and opportunities and threats of the host country. The TOWS matrix provides the alternative strategies to the Somani Fabrics.
Chapter III

Strategic Analysis of Somani Fabrics

Internal Analysis
3.1 Introduction

This chapter provides an overview of the internal analysis of Somani Fabrics. It describes the firm's history, its products and customers. It also overviews the studies related to the PAST analysis of Somani Fabrics, which includes people, activities, structure, technology, mission, vision, values, and financials of the company. The study of internal analysis provides insight into the firm's strengths and weaknesses.

3.2 Company profile

The company profile depicts the quality and quantity of the company's financial, human and physical resources. It also assesses the strengths and weaknesses of the company's management and organisational structure and finally, it contrasts the company's past success and traditional concerns with the current capabilities in an attempt to identify the company's future capabilities (Pearce, II & Robinson, Jr 1994).

Somani Fabrics was founded in Jaipur, India, in 1969 as a partnership firm, consisting of two partners Mrs Pushpa Gupta and Dr Prem Narain Somani. Dr Prem Narain Somani resigned and Mrs Manju Maheshwary, Mr Gopal Maheshwary and Mr Anil Maheshwary were admitted as partners. In the initial years the firm was engaged in the business of printing fabrics on various types of cotton cloth as per instructions of the cloth owners. These cloth owners were exporters based in Delhi and Jaipur. In 1972, the firm diversified into fabrication of fabrics. Somani Fabrics worked closely with the exporters for a period of three years. During this period the firm gained strengths in the fabrication of export quality garments. In 1975, the firm joined as a member of a garment exports association and participated in exhibitions. The firm secured its first breakthrough into exports during the year 1975 itself, and there after entered into the export market in full swing. Since then the firm's main operation has been manufacturing and exporting of readymade fashionable garments. In a span of 24 years,
the firm nurtured itself from infancy to the status of an established export house. The company has a large list of high-profile reputed clients to its credit. According to Mrs Pushpa Gupta, having high-profile customers for more than 24 years is a matter of pride and reputation for the company. The firm does not have any overseas offices. The firm sells directly to garment importers.

### 3.3 Organisational structure

Somani Fabric is a family business consisting of four family members: the founder partner Mrs Pushpa Gupta, Mr Gopal Maheshwary, his brother Mr Anil Maheshwary, and Mrs Manju Maheshwary. Mr Gopal Maheshwary who also happens to be an MBA graduate is a managing partner. He looks after the financial matters as well as exports. Mr Anil Maheshwary is a qualified engineer from the Indian Institute of Technology (IIT), one of the most renowned engineering institutions of India. Besides being a technocrat, he has commendable inherent skills in marketing. He not only looks after the technological aspects of the firm but also the exports. Mrs Pushpa Gupta is a founder member of Somani Fabrics. She has a rich professional experience in the field of designing; hence she looks after the designing aspect along with research and development. Mrs Manju Maheshwary is an expert in the field of fashion trade. She looks after the production and quality control. The firm has a staff strength of more than 500 employees. Figure 3.1 shows the organisational structure and the level of hierarchy. Beside the partners there are three general managers. 1. Mr Rahul Kant is a professionally-qualified chartered accountant. He joined the firm during 1998. He reports directly to Mr Anil Maheshwary and Mr Gopal Maheshwary. 2. Mr Ashwani Kumar looks after production and quality control. He has been with the firm for the last 15 years and reports to Mrs Manju Maheshwary. 3. Mrs Shruti Gupta has recently joined the firm. She reports to Mrs Pushpa Gupta. Below the General Managers comes the administrative, supervisory and other staff. Other staff consist of skilled and semi-skilled workers.
The firm has a typically hierarchical style of management. Given the size and nature of the business, the organisation has a decentralised structure.

**Figure 3.1 Organisational Structure**

Managing Partner  
Mr Gopal Maheshwary

| Mr Anil Maheshwary  
Exports |
|---------------------|
| Mrs Manju Maheshwary  
Production and Quality Control |
| Mrs Pushpa Gupta  
Designer |

General Manager  
General Manager  
General Manager

Administrative Staff = 7

Supervisory Staff = 15

Others = 500

Source: Primary Survey of Somani Fabrics
3.4 Business vision and mission of the company

3.4.1 Vision

Vision is an image or concept in the imagination. The partners of Somani Fabrics visualise that the success of the firm lies in delivering quality products at competitive prices. Japanese are highly quality conscious and are very particular about timely delivery. To live up to Japanese expectations, Somani Fabrics has invested heavily in technology. They felt that technology is an area of investment rather than expenditure. The firm is self reliant to a great extent. The dependence of the firm is limited to the procurement of the fabrics only. The firm has its own electric generating unit to overcome severe electricity supply problem. Thus Somani Fabrics has a vision to:

- keep pace with the technological revolution,
- to be self-reliant,
- recognise the importance of services and value to its customers.

3.4.2 Mission statement

"The mission of the company is an unique purpose that sets it apart from other companies of its type and identifies the scope of its operation" (Pearce & Robinson 1994, p. 14). Thus it is an aim or task that somebody believes it is their duty to carry out or to which they attach special importance and devotes special care. According to the managing partner, the mission statement of the firm is as follows:

'To produce high quality garments at competitive prices'
3.5 Key functional areas

The analysis of key functional areas is divided into categories, namely:

1. Production,
2. Human resources,
3. Sales and marketing, and
4. Finance.

3.5.1 Production

- **Production capacity**

The company has raised its production capacity of printed fabric to approximately 3.6 million meters per annum and for garment manufacturing to 0.55 million garments per annum. The company has installed the latest French and Japanese machines for speedier production and high finishing quality. Currently the firm is working on a single shift. During the year 1998 the firm produced and exported 0.22 million garments.

- **Quality control department**

The company has a quality-control department where stringent quality control procedures such as threading, dyeing defects, and measurement are applied before they are finally sent for ironing and thereafter for packing according to the instructions of the buyers. Due to stringent quality control procedures at each stage, the rejection rate of the finished goods is below 5%.
• **Corporate planning department**

The goals and objective are primarily concentrated on quality as the company uses the best methods to increase quality. The firm has concentrated on its established markets with modernisation of plant and enhanced production capacity. The company is looking for new export markets for growth (Primary survey of Somani Fabrics).

• **Technology**

Somani Fabrics has invested substantially in modernisation of the plant. The state of art processing units, modem stitching factories and in house computer generated designing system provide the company a competitive edge over its competitors. Periodical modernisation of production facility will help the firm to retain its existing buyers and will also help in winning the confidence of new overseas buyers (Primary survey of Somani Fabrics).

• **Designing**

Somani Fabrics has state of art computerised design centre with colour scanner and printers for producing their own prints. The firm is manned by toppers from local design schools and with their library of over 250 books on ethnic and modern prints. These outstanding designers help the firm to produce and develop the products according to the fashion trend and taste of the buyers (Primary survey of Somani Fabrics).

**3.5.2 Human resource department**

The firm does not have any training programs to improve the human resource, skills and talents, as these are cheap labour that are more concerned with immediate monetary gains. The permanent labour does not find any difficulty in adapting to the sophisticated systems once proper first-time instructions are given. The participation between the

Presented by Sandeep Gupta 38
lower level and the upper level of management is medium and cordial. The decision making lies solely with the upper management as it is a personalised work and the decision cannot be left at the lower level (Primary survey of Somani Fabrics).

3.5.3 Sales and marketing

- The product

Somani Fabrics is engaged in the business of manufacturing ready-made fashionable garments for exports. The products range from T-shirts and pants to dresses and Blouses. The products manufactured are for both males and females. The specialisation of Somani Fabrics lies in the field of women's wears. The productions are as per customer requirements. As such the firm has not developed its own brand name. The products are manufactured in the brand names of their buyers. The stringent quality control department ensures the quality lives up to the reputation of the brand name (Primary survey of Somani Fabrics).

- Target market

'The target market consists of a set of buyers sharing common needs or characteristics that the company decides to serve' (Kotler 1991, p. 263). Since the firm cannot serve everyone therefore it must choose the group by size of the customer, type of customer, or other factors. It is therefore necessary for the company to undertake customer analysis. The customer analysis deals with a set of customer needs and desires.

The main customers of Somani Fabrics are importers. These importers provide the link between the manufacturer and the market. Somani Fabrics has a strong list of importers. These importers are loyal to the company and have an enormous trust in the quality, timely delivery of the consignment and its competitive pricing. The wide range of
customers buy garments ranging from casual wear to office wear and high fashionable garments (Primary survey of Somani Fabrics).

- **Advertising and sales promotion**

The company advertises in various trade journals and is also a member of apparel trade promotion council. The promotional tactic used by the company is to put stalls in foreign countries at various trade exhibitions where there is a direct interaction between buyers and sellers. The management is of the view that the direct interaction of the buyer and seller is more rewarding in terms of developing long term fruitful relationships (Primary survey of Somani Fabrics).

### 3.5.4 Financial performance

Financial ratios are the most widely used tools for evaluating financial performance as they provide clues and symptoms of underlying conditions. The author has used various ratios for financial analysis.

- **Current ratio**

Current ratio enables us to develop the relation between the current asset and current liabilities. It demonstrates the adequacy of current assets to meet current liabilities. Thus they are the indicators of the firms ability to meet its short-term obligation. A current ratio of around 2 to 3 is considered good but it varies from industry to industry.

Somani Fabrics has maintained a very high current ratio. The lowest ratio was 7.03 during the year 1995 and reached 24.4, an all time high during the year 1997 as shown in figure 3.2. A higher current ratio is perceived as a healthy financial sign but such a large current ratio indicates that the organisation is not making efficient use of its current assets.
Strategic Analysis of Somani Fabrics

The current ratio is affected by the valuation of the inventory and hence it is frequently deceptive. Such a large ratio can also be due to a larger inventory, which may consist of slow-moving or obsolescent inventories. The quick test ratio is used to evaluate an enterprise's overall liquidity position.

Figure 3.2. Current ratio of Somani Fabrics

![Current Ratio Chart]

Source: Financial reports of Somani Fabrics from 1994 to 1998

- **Quick test**

  The Quick Test is calculated by eliminating the inventory as a liquid asset from the current asset. The rule of thumb for liquid ratio is 1 for a healthy financial condition but it too varies from industry to industry. Hence it needs to be interpreted with care.

  Somani Fabrics has maintained a very high quick test ratio. Since 1994 the ratio has been increasing year after year except during the end of financial year 1997, where it touched all time high of 17.5 as shown in the figure 3.3. The sharp increase in the year 1997 was primarily due to loans and advances advanced by the company, which recorded more than 333% increase compared to previous year.
According to Mr. Anil Maheshwary, the firm had faced a wide fluctuation in the supply of cotton fabrics. In order to overcome this problem the firm entered into agreements with the suppliers for supply of fabrics at an agreed rate in advance. As a part of agreement the firm advanced substantial amount as loans and advances for the procurement of the raw material.

The analysis of current ratio and quick test ratio indicates that the firm's inventory is not responsible for higher ratio, but that it is due to high liquidity of the firm. In the absence of the competitor analysis it is difficult to comment about the reason of such large ratio. But by all accounts this ratio is fairly large and it indicates that the firm is not making efficient use of its current assets. It also indicates a very high liquidity of the firm.

![Figure 3.3 Quick test ratio for Somani Fabrics](image)

Source: Financial reports of Somani Fabrics from 1994 to 1998

- **Total debt to total asset ratio**

This ratio measures the total funds provided by the debt. Somani Fabric's debt-to-asset ratio indicates very low level of funding by debts. It was only during the year 1995 when it touched its all time high of 31.37% (see figure 3.4). The average total debt to the total asset ratio for the past five financial years is 19.31%. At the end of the financial
Strategic Analysis of Somani Fabrics

year 1998 the firm's debt to asset ratio was 19.75%, which not only indicates that the firm has to pay for only 19.75% of its total assets but also the management's conservative attitude towards debts.

Figure 3.4 Debt to asset ratio

Source: Financial reports of Somani Fabrics from 1994 to 1998

- **Debt to equity ratio**

This measures the extent to which sources of long-term financing are provided by creditors. It is computed by dividing long term debt by the stockholder's equity.

Somani Fabrics has a favourable Debt to equity ratio. It has always maintained a very low percentage of liability except during the year 1995. At the end of the financial year 1998 for every rupee, the amount provided by debt was only 19.72 paise (1 Indian Rupee=100 paise). This low level of long-term financing indicates the financial strength of the firm. The firm is financially strong and is least dependent upon external funding requirements. Long-term funding requirements are primarily met through its internal generation. Government incentives such as duty draw back, packing credit, and other
discounting facilities are some of the other factors responsible for lower debt to equity ratio (see figure 3.5).

Figure 3.5 Long term debt to equity ratio

Source: Financial reports of Somani Fabrics from 1994 to 1998

- **Asset turnover ratio**

  The asset turnover ratio provides information on how hard the organisation's assets are working to generate sales. Efficiency of the operation can be established by comparing revenue earned with resources used. Thus it is calculated by dividing total sales by total assets.

  Somani Fabrics Asset turnover during the last four years has always remained below one. It was only during the year 1994 when it had its highest asset turnover ratio, of 0.88. In the subsequent year it dipped to an all-time low of 0.25. The situation improved in the year 1996 to 0.81 and dipped again thereafter (see figure 3.6). The organisation has been very inconsistent in terms of efficiency of the asset being used. The low ratio indicates that either the fixed asset or its current asset are unproductive or both.
Figure 3.6 Asset turnover ratio

Source: Financial reports of Somani Fabrics from 1994 to 1998

- **Fixed asset turnover**

The fixed asset measures the turnover of plant and equipment. Fixed asset turnover will provide a clearer picture regarding the efficiency of asset being used.

Somani Fabrics fixed asset turnover has been steadily rising since 1995. It indicates that the firm's plant and equipment's are being pressed hard to generate sales. Somani Fabrics experienced the lowest fixed asset turnover during the year 1995. Since then the situation has improved steadily. By the end of the financial year 1998 the firm had the highest fixed asset turnover of 1.62 times (see figure 3.7). Though the situation has improved, still there is under-utilisation of the installed plant capacity. The existing fixed asset is sufficient to cater for the increased production demand.
Since 1995 the company's profit before tax is declining year after year. During the financial year 1995 the company earned a profit before tax of Rs. 18.5 million which dropped to Rs. 7.76 million, at the end of the financial year 1998, a decline of 58%.
Strategic Analysis of Somani Fabrics

The company's gross profit declined from Rs. 23.17 million to Rs. 20.18 million for the same corresponding period (see figure 3.9). There was a decline in the gross profit margin of 12.9%. The decline in the gross profit margin indicated the rise in the cost of production, which is not absorbed by the sales. A decline of 12.9% is not matter of concern but compared to the year 1994 the company's gross profit has declined by 30%.

The profit margins are also dependent upon the type of goods exported. The ratio indicates that the company is working on lower profit margins. The lower profit margin is either the result of a higher share of regular garments compared to high fashionable garments or due to management's policy to work on lower profit margin and to be competent in the global market.

Figure 3.9 Gross profit margin

Source: Financial reports of Somani Fabrics from 1994 to 1998
Strategic Analysis of Somani Fabrics

- **Return on sales**

The return on sales is calculated by dividing net earnings by sales. It is also known as Net profit margin.

Somani Fabrics is experiencing declining net profit since 1995. By the end of the financial year 1998, there had been a considerable decline of 58% when compared to 1995. This decline is due to decrease in the gross profit margin by 12.9% and a decrease of net profit by 45.1% from financial year 1995 to 1998 (see figure 3.10). The decrease in the net profit margin is primarily due to increases in administrative costs and financial costs. On one hand the company is experiencing declining sales except during the year 1996 in which it recorded its highest turnover of Rs. 61.64 million, and on the other hand the company's administrative costs along with costs of production are rising. This dual impact is likely to affect the firm's future cash flow.

Since it is difficult to determine the cause of lack of profitability, the return on investment (ROI) with Du Pont system of financial analysis provides management with clues to lack of success of the firm. These financial tools bring together activity, profitability and leverage measures.

**Figure 3.10. Return on sales**

[Graph showing return on sales from 1994 to 1998]

*Source: Financial reports of Somani Fabrics from 1994 to 1998*

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Return on investment

The return on investment of Somani Fabrics declined from 0.23 in 1994 to 0.09 in the year 1998, a decline of 60% (see figure 3.11 and table 3.1). The prime reason for the decline in the ROI is due to vast fluctuation between the asset turnover and the net profit ratio. Whenever the firm has tried to improve its asset turnover ratio the firm has lost heavily on its net profit ratio. Increasing net profit ratio resulted in sharp decline in the asset turnover ratio. The equilibrium mix is yet to be obtained by the firm. Declining ROI indicates the under utilisation of its assets and its strength.

Figure 3.11 Return on investment

Source: Financial reports of Somani Fabrics from 1994 to 1998

Table 3.1 Return on investment

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Return on Investment</td>
<td>0.23</td>
<td>0.06</td>
<td>0.13</td>
<td>0.09</td>
<td>0.09</td>
</tr>
<tr>
<td>Asset Turnover Ratio</td>
<td>0.88</td>
<td>0.25</td>
<td>0.81</td>
<td>0.41</td>
<td>0.61</td>
</tr>
<tr>
<td>Net Profit Ratio</td>
<td>0.26</td>
<td>0.24</td>
<td>0.16</td>
<td>0.22</td>
<td>0.14</td>
</tr>
</tbody>
</table>

Source: Financial reports of Somani Fabrics from 1994 to 1998

Presented by Sandeep Gupta
In a nut-shell the financial analysis indicates that the firm is maintaining a very high liquidity. The funds are lying idle. The firm has low a debt-to-equity ratio. There is under-utilisation of fixed assets, which indicates the idle capacity of production. The gross profit margin and net profit margin have declined. Moreover the sales are also declining. The firm is working on lower margins to be competitive in the international market.

3.6 Strengths of Somani Fabrics

- **Adequate infrastructure**

  The company has adequate infrastructure and enhanced production facility necessary to be self-sufficient in the manufacturing process. It will benefit the firm on account of economies of scale. The economies of scale of production will help the firm to increase its margin of profit in totality. This is possible by increasing its exports turnover, either with the existing clients or exploring new market for exports.

- **Quality garments**

  The wide range of satisfied quality-conscious customers for a period of over 24 years is one of the main strength of the firm. This is one of the main reasons that the firm is still holding its clients in spite of recession the world over.

- **Tie up with top designers**

  The firm is manned by toppers from a local design school. These top designers provide the firm with forecasts of the coming season's trends of new design, and the firm is fast enough to meet the changing requirement of the market.
Strategic Analysis of Somani Fabrics

- **Latest technology**

The use of state-of-art printing and fabrication units provides the firm with the capacity to produce quality garments for quality conscious buyers.

- **Diverse and well-developed product range**

The wide range of product covers the wider market segment and hence expansion is very likely with ease. Buyers will be able to get diverse product ranges under one roof and will be saved from the hassles of locating different manufacturers for their range of products.

- **Quick decision**

Due to centralisation of authority at the top management level, the decision-making capacity is fast. This is very important in the highly competitive market, where opportunity never knocks again.

- **Continuity of the policy**

The centralisation of power leads to the continuity of the policy of the organisation. Over a period of 30 years the policy to maintain the quality of the product has reaped good results and is likely to supply strength for expansion.

- **Secrecy**

Centralisation helps the organisation to maintain the secrecy of the firm. Any leakage of the firm's secret will severely affect the organisation in terms of losing opportunities, and exposing of its weakness, which will ultimately benefits its arch rival.

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- **Financial soundness**

  Financial soundness is an added advantage of the firm. Due to low interest and debt burdens, the firm can produce products at competitive prices and place its products in a highly competitive global market.

- **Top level management commitment for survival**

  One of the greatest strengths of the firm is its commitment towards its customers. More than 30 years of long-standing relations with its customers is a living example of this commitment.

3.7 **Weaknesses of Somani Fabrics**

- **Under utilisation of plant capacity**

  The firm has a high production capacity of 0.55 million garment per annum where as the capacity utilisation in the year 1998 was only 0.22 million, only 40 percent of the installed capacity. The company loses the benefits from economies to scale on account of mass production.

- **Highly concentrated exports**

  The company has been exporting primarily to Japan for more than 30 years. Any change in government policy could severely affect the company's future. High concentration leads to higher risk. The company has no exposure to the Western world or Australian market.

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• **Centralised control**

Due to highly concentration of authority in the hands of fewer people, there is a heavy burden at the top level of management. This leads to less time for important matters.

• **Lack of knowledge and specialisation**

Concentration of decision-making powers in few hands leads to faulty decision due to lack of knowledge, since no human being is perfect in all respects. People may use their power to suppress their subordinates and the organisation will function with an autocratic style of management, which may lead to conflicts.

• **Instability**

The firm is exposed to instability on account of the absence of any partner due to any unavoidable circumstances.

• **Financial Management**

The financial management of the firm is weak. It has a very high level of liquidity. These funds are lying idle and hence they are unproductive.

### 3.8 Conclusion

The internal analysis of Somani Fabrics deals with the principal objective of the business and its operations.

The internal analysis of Somani fabrics indicates that the firm is exporting goods primarily to Japan. The firm has gained sufficient experience over the years and is poised for growth. The firm is financially a strong company. The firm has made

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investment to modernise and increase the production capacity. The firm is facing vast fluctuation in sales and a decline in profits. The firm has yet to benefit from the economies of scale from modernisation of the plant and increased production.
Chapter IV

Strategic Analysis of Somani Fabrics

EXTERNAL ENVIRONMENTAL ANALYSIS
4.1 Introduction

The external environment is composed of a set of forces which are beyond the control or influence of the individual organisation. It is usually visualised as encompassing geographic, political, social, technological and economic variables.

This chapter provides an analysis of external environment. The external environmental analysis includes Australian women's and girls' wear manufacturing industry analysis, PEST analysis and analysis of Porter's five forces. It is important to analyse the external environment as these forces are beyond the control of the organisation. Though major changes in the external environment are infrequent, any changes in the external environment can have serious implications on the performance for the firm. The analysis will provide the firm with opportunities and threats.

4.2 Women's and girls' wear manufacturing industry analysis

4.2.1 Industry overview

The Australian women and girls garment manufacturing industry accounts for about 0.1% of the GDP of Australia. This is a relatively medium sized industry when compared with other industries in the Australian economy. The key products in terms of value of the industry are work clothes, leisure clothes and formal wear. The key markets for the industry are final consumers, other industries and exports. Table 4.1 shows the share of each market.
Strategic Analysis of Somani Fabrics

Table 4.1 Key market share

<table>
<thead>
<tr>
<th>Key market share</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final consumer</td>
<td>81</td>
</tr>
<tr>
<td>Other industries</td>
<td>11</td>
</tr>
<tr>
<td>Exports</td>
<td>4</td>
</tr>
</tbody>
</table>


4.2.2 Industry concentration

The industry is concentrated mainly in two states namely New South Wales and Victoria. According to IBIS estimates, the share of the two states is 83.5%, which indicates the high concentration of the industry in these two states (see table 4.2).

Table 4.2 Industry concentration

<table>
<thead>
<tr>
<th>States</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>New South Wales</td>
<td>44.30</td>
</tr>
<tr>
<td>Victoria</td>
<td>39.20</td>
</tr>
<tr>
<td>Queensland</td>
<td>9.40</td>
</tr>
<tr>
<td>Southern Australia</td>
<td>2.90</td>
</tr>
<tr>
<td>Western Australia</td>
<td>3.60</td>
</tr>
<tr>
<td>Tasmania</td>
<td>0.30</td>
</tr>
<tr>
<td>ACT</td>
<td>0.20</td>
</tr>
</tbody>
</table>

4.2.3 Major players of the industry

The Australian women's and girls wear manufacturing industry is characterised by a few large players, and a large number of small establishments. The prominent players of the industry are the following:

- Gazel Corporation Pty Ltd.,
- Supre Pty Ltd,
- Sara Lee Holdings (Aust.) Pty Ltd.,
- Australian Fashion Group Pty Ltd.,
- Levis Strauss (Aust.) Pty Ltd, and
- Sportscraft Sportsgirl Pty Ltd.
- Alsco Pty Ltd,

The large number of small and medium manufacturers are engaged in the manufacturing of high quality designer garments. Most of these designers are located in New South Wales. Some of these fashion designers have launched budgeted labels for cost conscious buyers. Cheaper fabrics, which look good and are worn well, are being used and quality is being maintained.

4.2.4 Industry performance

The industry performance can be measured in terms of dollar value or percentage change in the turnover with respect to previous year. The industry's performance is affected due to increase in import penetration in the domestic market. As a matter of fact there was a decline in the industry turnover during the year 1992-93. The improved performance during 1993-94 was due to increase in the exports. In terms of dollar value the industry turnover is constantly increasing. However, in terms of percentage change there is a wide fluctuation of the industry performance as shown in table 4.3.
Strategic Analysis of Somani Fabrics

Table 4.3 Industry performance

<table>
<thead>
<tr>
<th>Years</th>
<th>AS in Millions</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-93</td>
<td>1185.30</td>
<td>-12.10</td>
</tr>
<tr>
<td>1993-94</td>
<td>1406.00</td>
<td>17.20</td>
</tr>
<tr>
<td>1994-95</td>
<td>1488.60</td>
<td>5.90</td>
</tr>
<tr>
<td>1995-96</td>
<td>1592.20</td>
<td>7.00</td>
</tr>
<tr>
<td>1996-97</td>
<td>1604.70</td>
<td>0.80</td>
</tr>
<tr>
<td>1997-98</td>
<td>1417.60</td>
<td>-11.70</td>
</tr>
<tr>
<td>1998-99</td>
<td>1417.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>


4.2.5 Industry outlook

Prospects of the firms in the women's and girls' wear manufacturing sector are dependent to a large extent on import competition in the domestic market and the ability of the firms to improve export earnings. Import competition is expected to increase, especially for the budgeted priced items, with the federal government planning to reduce tariff protection.

According to IBIS estimates, the industry will grow at an annual average rate of 2.4% from 1997-98 to 2002-03. Slight growth was expected during 1998-99, before declining the following year. Industry turnover growth is expected to improve again in 2000-01 before becoming stronger over the last two years of the forecast period. In the year 2000-2001 demand is expected to improve, and will become stronger in 2001-02 and 2002-03 with stronger economic growth and growth in private consumption.
Strategic Analysis of Somani Fabrics

The import share of the domestic market is expected to increase from 23.2% in 1997-98 to 27.8% by the end of the forecast period. Overall domestic firms are likely to lose some of their market share (table 4.4).

Those firms that concentrate on quality should be able to maintain some of the domestic market share. Firms such as Country Roads that have rationalised, and have decided to undertake some manufacturing overseas, are likely to continue to improve performance. Those firms that continue to manufacture only locally, and do not operate in the niche market, may have some problem competing successfully. IBIS and Australian Bureau of Statistics (ABS) estimates for the actual and future trends of imports are shown in table 4.5.

Table 4.4 Import Trends

<table>
<thead>
<tr>
<th>Years</th>
<th>Dollars in Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-1993</td>
<td>268.50*</td>
</tr>
<tr>
<td>1993-1994</td>
<td>276.80*</td>
</tr>
<tr>
<td>1994-1995</td>
<td>294.20*</td>
</tr>
<tr>
<td>1995-1996</td>
<td>353.30*</td>
</tr>
<tr>
<td>1996-1997</td>
<td>410.40*</td>
</tr>
<tr>
<td>1997-1998</td>
<td>475.40*</td>
</tr>
<tr>
<td>Forecast</td>
<td></td>
</tr>
<tr>
<td>1998-1999</td>
<td>477.00</td>
</tr>
<tr>
<td>1999-2000</td>
<td>492.60</td>
</tr>
<tr>
<td>2000-2001</td>
<td>536.90</td>
</tr>
<tr>
<td>2001-2002</td>
<td>590.40</td>
</tr>
<tr>
<td>2002-2003</td>
<td>649.00</td>
</tr>
</tbody>
</table>

Note: * estimates


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Strategic Analysis of Somani Fabrics

Table 4.5 Industry outlook

<table>
<thead>
<tr>
<th>Years</th>
<th>Dollar in Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-2000</td>
<td>1636.60</td>
</tr>
<tr>
<td>2000-2001</td>
<td>1664.90</td>
</tr>
<tr>
<td>2001-2002</td>
<td>1772.20</td>
</tr>
<tr>
<td>2002-2003</td>
<td>1886.40</td>
</tr>
</tbody>
</table>


4.2.6 Industry condition

There are no specific regulations that apply to this industry. The tariff rate for apparel was phased down from 43% during 1994 to 34% during 1997, and will be further reduced to 25% by 2000. Imports from developing countries attract a duty of 30%. Goods from Fiji and New Zealand attract no tariff. Australia has a special agreement known as closer economic relation (CER) with these countries. Under CER agreement no tariff at all is applied on goods entering into Australia.

Source:

4.2.7 Industry life cycle

The Australian garment manufacturing industry for women and girls is on a decline. The growth of the industry is much slower than the overall economy. The industry had experienced a decline in a number of players. The products from the industry are in clearly segmented product groups, and imports are gaining an increasing share of the market. Fashion designers need to consider options such as cheaper labels that do not compromise on quality, but use cheaper fabrics, to maintain some share of domestic

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Strategic Analysis of Somani Fabrics

market. In order to take advantage of reduction in tariffs it is necessary for the companies to have more efficient sourcing of raw material.


4.2.8 Market size

During 1997-1998, the industry had a turnover of A$1417 million. It was estimated that during 2003-2004 the industry will have a turnover of A$1431.20 million. IBIS estimates that the industry will grow at an annual average rate of 0.2% from 1998-99 to 2003-04. The prospects of the firm are largely dependent on import competition, especially for the budget priced items. The import share of domestic market is likely to increase from 26.5% to 45.1% by the end of the forecast period.


4.2.9 Competition

The major competition of the industry comes from imports. Competition within the industry comes from leisure clothes competing with formal wear. Leisure clothes are winning more market share. The current fashion trends are more in favour of leisure clothes.

4.2.10 Industry strengths

The Australian women's and girls' wear manufacturing industry has the following strengths:

1. quality of Textile,
2. quality of product,
3. brand Image, and
4. technological competence.

4.2.11 Industry weaknesses

The Australian women and girls wear manufacturing industry has the following weaknesses:
1. cost of labour,
2. distance from market,
3. small size of domestic market, which results in small production runs and insufficient capacity utilisation, and
4. lack of marketing and business skills.

4.2.12 Barriers to entry

The barriers to entry include:
1. high cost of automated equipment and the cost of marketing to build the strength of the brand, and
2. shortage of skills and access to design capability.

4.3 PEST analysis

PEST analysis is used for the external environmental scanning. The purpose of PEST analysis is for the assessment and development of the organisational opportunities and threats.
4.3.1 Political and legal

- Constitution

Australia is a Commonwealth country. The Australian flag consist of the Union Jack and seven stars. The Union Jack represents its historical link with Great Britain. The seven stars represent six States and Territories and the smaller star from the Southern Cross. Under the Australian Constitution the legislative power of the Commonwealth of Australia is vested with the Commonwealth Parliament, which consist of the Queen, the Senate and the House of Representatives. The Queen is represented by the Governor-General throughout Australia.

There are three levels of government in Australia. The States and the commonwealth systems of the government are derived from the British Westminster system. In the Commonwealth Parliament the upper house is known as Senate and the Lower House is known as the House of Representatives.

- Political Parties

Australia has essentially a two-party political system, comprising of the Liberal and National Parties and the Australian Labour Party. The political party or coalition which has a majority of seats in the House of Representative is expected to form the government. Following the October 1998 election the Australian Labour Party had the largest single number of elected candidates in the House of Representative but not enough to form a government in the centre. The Liberal party in coalition with the National Party formed the government. The Liberal party and the National Party have formed the government for the second consecutive time. The Hon. John Winston Howard is the Prime Minister of Australia for the second consecutive term.

- **Legal System**

Australia was created by the merging of a British Colonies therefore its legal system is inherited and developed from British Law. Though much of the law is codified, English law still remains important in many areas. The Federal Government is vested with powers to legislate on trade and commerce, communication, foreign affairs and defence. All states of Australia are also empowered with other legislative powers to govern.

Like Australia, India also derived its political and legal system from British. Both are democratic countries and are also the members of Commonwealth. India happens to be the largest english speaking country in the Asian continent. Its education system was derived from the British, which is much similar to that of Australia. The new Australian government is deeply committed in strengthening the bilateral relationship with India. Australia strongly supported India in joining the ASEAN regional forum. The Australian government also looks forward to co-operating with India in working through the multilateral system to achieve real progress in the WTO. The Australian government is also pursuing close relations with India through the New Horizons Promotion.

*Source:*

4.3.2 Economic

The Australian economy is an integral part of the global economy. It is perceived as one of the developed economies of the world. It is a mature industrialised economy with a large service sector; a broad-based manufacturing sector; and rapidly expanding information and technological infrastructure. The continuous reform, deregulation and sound financial policies of governments have delivered a strong growing economy.

Australian economic growth is dependent upon the competitive domestic economy and access to foreign markets. Coal is Australia’s largest merchandised export. Tourism has played a vital role in the development of the economy. It has not only boosted exports but also diversified the export base. The tourism industry provides twice the export earnings of coal.
Australia's economic interests are closely engaged with the Asia Pacific region. It is more evident from the fact that during the year 1997-98, Australia's merchandise exports to East Asian countries was 54% of the total and 72% to AEPC members. Australian economic performance and its export performance were affected due to the Asian crisis. GDP growth was also restricted due to the Asian crisis, which was expected to have more impact during the year 1998-99. The average annual growth of the GDP was around 3% from 1976 to 1997 and the GNP for the same period was 1.4%.

The key aim is to improve public and private savings. The debt to GDP ratio is to be halved by the year 2000, from 19.5% to 10%. The inflation rate in Australia has been the lowest among the OECD countries and has reached the lowest level in the past 35 years. Interest rates are also close to an historic low within Australia too.

- **Economic**

The Australian Economy appears to be in good health despite the Asian crisis (table 4.7). This is due to reforms, deregulation and sound financial policies. In 1998, the GDP grew by 5% compared to 3.7% in the proceeding 3 years. GDP at market prices rose to A$ 579.1 billion. An inflation rate below 1% during 1997 and 1998 indicates that private consumption is expected to rise. The Australian currency exchange rate has been more or less stable. The value of the one Australian dollar in US Currency as on 19th July 1999 was 65.84 US cents (Source: www.theage.com.au). During 1997-98 the Australian dollar depreciated and touched a 65 year low. The Asian crisis was the main reason for such turbulence, since the Australian economy has very close trade links with the Asian countries (maps 4.1 and 4.2). With the stabilisation of Asian economies, the Australian dollar has gained strength. The Australian population is estimated at 18.7 million but its per capita GDP is the highest in the region. It had greater per capita GDP than China, Indonesia, the Philippines, Thailand, Malaysia or the Republic of Korea. Australia has the fourth-largest consumer economy in the Asian region, comparable to...
that of China and the Republic of Korea. Australia's GDP is only marginally less than that of all ASEAN nations combined.

Table 4.7 Economic Indicators - Australia

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<tbody>
<tr>
<td>GDP at Market Prices (A$ Billion)</td>
<td>490.5</td>
<td>519.0</td>
<td>546.9</td>
<td>579.1</td>
</tr>
<tr>
<td>GDP (US$ Billion)</td>
<td>352.5</td>
<td>394.9</td>
<td>388.4</td>
<td>346.3</td>
</tr>
<tr>
<td>Real GDP Growth (%)</td>
<td>3.7</td>
<td>3.7</td>
<td>3.7</td>
<td>5</td>
</tr>
<tr>
<td>Consumer Price Inflation (av; %)</td>
<td>4.7</td>
<td>2.6</td>
<td>0.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Population (Million)</td>
<td>18.1</td>
<td>18.3</td>
<td>18.5</td>
<td>18.7</td>
</tr>
<tr>
<td>Merchandise Exports (US$ Million)</td>
<td>53,220</td>
<td>60,397</td>
<td>64,891</td>
<td>55,844</td>
</tr>
<tr>
<td>Merchandise Imports (US$ Million)</td>
<td>57,443</td>
<td>61,032</td>
<td>63,044</td>
<td>60,739</td>
</tr>
<tr>
<td>Current A/C Balance (US$ Million)</td>
<td>-19,654</td>
<td>-15,724</td>
<td>-12,494</td>
<td>-17,804</td>
</tr>
<tr>
<td>Total Gross External Debts (US$ Million)</td>
<td>193.3</td>
<td>202.4</td>
<td>227.5</td>
<td>208.8</td>
</tr>
<tr>
<td>Debt-Service Ratio,Paid (%)</td>
<td>30.6</td>
<td>29.5</td>
<td>31.3</td>
<td>42</td>
</tr>
<tr>
<td>Exchange Rate (av; A$:US$)</td>
<td>1.349</td>
<td>1.278</td>
<td>1.347</td>
<td>1.592</td>
</tr>
</tbody>
</table>

Source: Modified from Country Report, Second Quarter 1999, p. 5, Published by Economist Intelligence Unit, London, UK.
Strategic Analysis of Somani Fabrics

Australia's balance on current account has always been in deficit (map 4.3). The current account deficit is constantly increasing. In 1997, the current account deficit of Australia was US$ 12,494 million. The deficit increased to US$ 17,804 in 1998. The growing current account deficit is a matter of concern to the Australian government. Simultaneously, the Australia has also maintained low level of inflation. The adverse balance of payments has led to increases in net foreign liabilities. In order to offset rising net foreign liabilities, the government has made several efforts such as privatisation to attract foreign direct investment in Australia.

Map 4.1 Australia's Merchandise Exports, Destination-1997-98

Source:
Map 4.2 Australia's Merchandise Imports, Source Countries 1997-98

Imports ($m)
- 2,500 or more
- 1,000 - 2,500
- 500 - 1,000
- 1 - 500
- Less than 1

Source:

Map 4.3 Australia's Net Balance of Trade Partners

Excess of Exports over Imports ($m)
- 500 or more
- 50 - 500
- 1 - 50
- Zero or rounded to zero
- 1 - 0
- .50 - .1
- -500 - -50
- -1,000 - -500

Source:
Regional Affiliations

Australia maintains closer economic relations with New Zealand. An agreement with New Zealand has been signed providing special benefits to their neighbouring country. Beside this, Australia is also active in the South Pacific Commission, the South Pacific Forum and other regional bodies.

Australia's International Relations

Australia is known as a nation of global interest. Australia deals with countries in many regions. The United States, Europe, Japan and China are its major trading partners. The United States is Australia's second largest trading partner and the largest source of investment. The United States provides defence technology and also a nuclear umbrella. Beside the United States, Japan enjoys a significant relationship, which stretches beyond the bilateral economic relationship. Japan is Australia's largest export market. China is the fifth largest trading partner. Europe is Australia's biggest trading partner; due to historical, cultural and economic reasons, Australia has close ties with many European countries.

Economic Reforms

Over the past two decades, the Australian federal government has transformed the national economy. Australia's economy, which was previously perceived as a commodity-based economy with a protected domestic manufacturing industry, has been transformed into an economy which is now capable of supplying sophisticated manufactured products and services to the world. The transformation started during the year 1983 with the floating of the exchange rate of the Australian dollar, the abolition of exchange controls, and the deregulation of the banking system. In the process of deregulation the government granted licences to 16 foreign banks to operate in Australia.
Strategic Analysis of Somani Fabrics

The Australian economy was marked with labour problems. The federal government introduced new industrial relations laws to reduce the number of unions. With the introduction of Industrial relations reforms there was a decrease in the number of unions by more than 60%. The reforms continued year after year and today the results are visible. The privatisation of Telstra is a current controversial example of privatisation policy. The government has sent the clear signals that the reforms will continue in the best interest of the country.

- Results Achieved

The success of the reforms can be measured by the achieved results over such a short period of time. These includes:
- steady decline in inflation rate,
- lowering taxation,
- 40% increase in the index of international competitiveness,
- reduction in the real unit labour cost of 13% since 1983, and
- an increase in GDP coming from exports from 13% in 1982 to 22% in the year 1994.

4.3.3 Socio/ Demographic/Cultural analysis

- The Australian Population

Australia's current population is estimated at 18.7 million (see figure 4.1). A break up of the population reveals that 22% are in the age group of 0-14 years, 66% are in the age group of 15-64 years and 12% are above 65 years. The trend to an ageing population is set to continue with the 45-54 age group growing fastest, followed by the over-60 years. The growth rate of population is 1.1% and it is expected to fall to 0.2% by the year 2051 with the estimated population of 20.1 million after reaching the peak of 20.7 million during the year 2033 (see figure 4.2).
The concentration of the population is mainly confined to New South Wales followed by Victoria and then Queensland. The population distribution is displayed by way of table 4.8. The Australian birth rate was 15 per thousand in the year 1992 with a life expectancy of 78 years in 1993. Actual population during 1997 was 18.53 million. The expected population during 2021 will be 22.09 million and is likely to touch 23.53 million during 2051. The statistics also project that the ageing population problem, which is already evident, is set to continue. There will be a slight increase or even a small decrease in the younger age group people.

![Figure 4.1 Population of Australia](source: <URL:http://www.abs.gov.au>(Accessed<02 August 1999)>)

Presented by Sandeep Gupta
Figure 4.2 Projected Population


Table 4.8 Population Distribution

<table>
<thead>
<tr>
<th>As at 30th June</th>
<th>NSW '000</th>
<th>Vic. '000</th>
<th>Qld '000</th>
<th>SA '000</th>
<th>WA '000</th>
<th>Tas. '000</th>
<th>NT '000</th>
<th>ACT '000</th>
<th>Aust. '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1907</td>
<td>1543</td>
<td>1226</td>
<td>544</td>
<td>367</td>
<td>255</td>
<td>183</td>
<td>4</td>
<td>..</td>
<td>4122</td>
</tr>
<tr>
<td>1917</td>
<td>1904</td>
<td>1409</td>
<td>683</td>
<td>440</td>
<td>306</td>
<td>193</td>
<td>5</td>
<td>3</td>
<td>4944</td>
</tr>
<tr>
<td>1927</td>
<td>2402</td>
<td>1727</td>
<td>873</td>
<td>565</td>
<td>392</td>
<td>211</td>
<td>4</td>
<td>8</td>
<td>6182</td>
</tr>
<tr>
<td>1937</td>
<td>2693</td>
<td>1853</td>
<td>993</td>
<td>589</td>
<td>457</td>
<td>233</td>
<td>6</td>
<td>11</td>
<td>6836</td>
</tr>
<tr>
<td>1947</td>
<td>2985</td>
<td>2055</td>
<td>1166</td>
<td>646</td>
<td>502</td>
<td>257</td>
<td>11</td>
<td>17</td>
<td>7579</td>
</tr>
<tr>
<td>1957</td>
<td>3625</td>
<td>2656</td>
<td>1413</td>
<td>873</td>
<td>688</td>
<td>326</td>
<td>21</td>
<td>38</td>
<td>9640</td>
</tr>
<tr>
<td>1967(a)</td>
<td>4295</td>
<td>3274</td>
<td>1700</td>
<td>1110</td>
<td>879</td>
<td>375</td>
<td>62</td>
<td>103</td>
<td>11799</td>
</tr>
<tr>
<td>1977(b)</td>
<td>5002</td>
<td>3837</td>
<td>2130</td>
<td>1286</td>
<td>1204</td>
<td>415</td>
<td>104</td>
<td>214</td>
<td>14192</td>
</tr>
<tr>
<td>1987</td>
<td>5617</td>
<td>4210</td>
<td>2675</td>
<td>1393</td>
<td>1496</td>
<td>449</td>
<td>158</td>
<td>265</td>
<td>16264</td>
</tr>
<tr>
<td>1997p</td>
<td>6275</td>
<td>4605</td>
<td>3401</td>
<td>1480</td>
<td>1798</td>
<td>474</td>
<td>187</td>
<td>310</td>
<td>18532</td>
</tr>
</tbody>
</table>

(a) Prior to 1961, data exclude full-blooded Aboriginal people.

(b) In 1971, there was a break in series due to change in the definition and measurement of the population.


Presented by Sandeep Gupta
Strategic Analysis of Somani Fabrics

The Australian population consists of people from different religions and countries. Australia does not have an official religion as such. There is no restriction on practice of any religion. Christianity is the biggest religion. Nearly 71% of the population followed Christianity and almost equally by Catholic and Anglican. About 25% professed no religion, and were from small minorities of Muslims, Buddhists and Jews (Hanson Cook for the Commonwealth Secretariat 1996).

- **Language**

  English is the business language, which is widely used and understood. In rural areas, 42% of Aboriginal people use their own language as a first language.

- **Culture and Social Life**

  Australia is a multicultural nation. People from different parts of the world have migrated to Australia. These people have brought their language and culture with them. People are very friendly in Australia. There is a growing number of marriages between people of different communities. Australia has common recreation activity, which includes playing sports, visiting friends and relatives. The most popular sports of Australia are Tennis, cricket, football, netball and swimming. Australia is known for their domination in football, netball and swimming, besides winning of the cricket world cup for the second time. They have dominated in the cricket field too.

- **Employment**

  Unemployment is a matter of concern for Australia. There has been a decrease in the average unemployment rate. The annual average unemployment rate for all persons peaked at 11.0% during 1992-93. Since then the rate has been falling, apart from a small rise during 1996-97. For males, the rate fell to 8.8% during 1995-96 and 1996-97, from a peak of 11.7% during 1992-93. During 1997-98, the rate fell to 8.5%. The female rate

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fell from 10.0% during 1993-94 to 8.0% during 1995-96. Following a rise to 8.4% during 1996-97, the rate fell to 8.0% during 1997-98.


4.3.4 Technology

The Australian economy has kept pace with the changing technology. That is why today, Australia is regarded as a technologically developed country. It has fully developed infrastructure, and a nation-wide air, road, rail, port and communication network facilitating global trade. Technological advancement has led to improved manufacturing processes, and the enhanced quality of products. Information technology has played a vital role in the Australian economy. High use of Information Technology has not only built a bridge between the domestic market and international market but also led to efficient public administration and delivery of services.

Australia is regarded as the second biggest user of Information Technology in the world after the USA. The use of Information technology is linked with every Australian in one form or the other such as use at home, at supermarkets, at banks, and at post offices. The Australian government has played a vital role by encouraging investment in the infrastructure necessary to support industrial growth.

Almost the entire business community is highly dependent on the use of Information Technology. The per capita use of Internet and mobile phones is the highest in the world. Electronic transfers have changed the way of banking. The high use of this technology has led to great time saving and as a result has lead to high efficiency.

A pilot project is under way to provide a broadband cable service. This service will provide better quality viewing along with hundreds of channels through multiple delivery system in a digital compressed format. The profound effect of this will begin to be felt by the year 2000. Five million households in metropolitan and major provincial
centre and all significant commercial sites are likely to obtain benefits from the introduction of this service. The impact on society could be significant.

### 4.4 Competitive advantage of the nation

An Industry consists of group of firms producing goods or services competing with each other directly. Thus the Australian clothing industry is affected by various factors. Competitive strategy must grow out of sophisticated understanding of the structure of the industry because it is the firm and not the nation, which compete in the international market. For an Australian industry to succeed, it must support and pursue the proper strategy for the particular industry. In order to create competitive advantage the Australian textile clothing industry requires improvement and innovation. It requires an insight into new ways of competing and above all a willingness to take risks and to invest in implementation. The intense commitment and sustained investment by the company towards the goals can also help the firm to gain a competitive advantage.

#### 4.4.1 Factor condition

The factor condition consists of various inputs necessary to compete in any industry. The factors of production such as land, labour and capital affect the ability to compete in the international market. Some of these factors of production can be imported if needed.

The Australian clothing industry is not too large when compared with the rest of the country's industries. This industry accounts for about 0.1% of GDP. Thus it is medium size industry relative to other industries in Australia. The exports were 5% of the turnover and imports were 23.2% of the domestic demand. The decline in the industry turnover is primarily due to the import penetration in the domestic market. To meet this challenge the industry invested heavily in the technology. For example, advance
Strategic Analysis of Somani Fabrics

equipment such as cutting and grading equipment, computer aided design to name a few.

The number of manufacturing firms has been increasing since 1991-92. This was mainly due to the increase in the number of small designers. After the reduction in the tariff protection during the year 1988, the Australian women's and girls' wear manufacturing industry declined to a considerable low of 879 establishments by the end of the year 1991-92. Employment in the industry also declined from 18910 during 1977-78 to 10400 by the end of the year 1991-92. The high labour cost in Australia was one of the main reasons. The high labour cost made it difficult for industry to compete both in domestic as well as in the international market. Since 1995 the growth in turnover has remained quite strong (table 4.9).

<table>
<thead>
<tr>
<th>Years</th>
<th>Nos. Establishments</th>
<th>% Change</th>
<th>Employment.</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>879</td>
<td>-1.8</td>
<td>10400</td>
<td>-14.1</td>
</tr>
<tr>
<td>1992-93</td>
<td>891</td>
<td>1.4</td>
<td>9863</td>
<td>-5.2</td>
</tr>
<tr>
<td>1993-94</td>
<td>1176</td>
<td>32.0</td>
<td>10210</td>
<td>3.5</td>
</tr>
<tr>
<td>1994-95</td>
<td>1553</td>
<td>32.1</td>
<td>12129</td>
<td>18.7</td>
</tr>
<tr>
<td>1995-96</td>
<td>1598</td>
<td>2.9</td>
<td>11098</td>
<td>-8.4</td>
</tr>
<tr>
<td>1996-97</td>
<td>1600</td>
<td>0.1</td>
<td>11573</td>
<td>4.3</td>
</tr>
<tr>
<td>1997-98</td>
<td>1605</td>
<td>0.3</td>
<td>11600</td>
<td>0.2</td>
</tr>
</tbody>
</table>


The high investment in automated equipment has helped the industry to reduce wage cost and to improve efficiency. The overall share of wages in turnover declined from 29% in the year 1977-98 to 17.1% during 1991-92.

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4.4.2 Demand condition

Home demand conditions are the second determinants of national competitive advantage in an industry. Three broad attributes, namely home demand composition, demand size and the pattern of growth in the internationalisation of domestic demand are the keys for analysis.

The Australian Government has been reducing tariffs on textile clothing and footwear (TCF). As a result of tariff reduction on TCF products, imports have increased (figure 4.3).

Due to adverse economic conditions, there was a severe reduction in the demand during the year 1992-93. In the following year 1993-94 the demand picked up strongly. Since then, demand conditions have continued to improve and are believed to be stronger each year due to continuous improvements in private consumption expenditure, in real incomes and in the improvement in price relatives.

<table>
<thead>
<tr>
<th>Years</th>
<th>Turnover in A$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-93</td>
<td>1185.3</td>
</tr>
<tr>
<td>1993-94</td>
<td>1389.1</td>
</tr>
<tr>
<td>1994-95</td>
<td>1470.6</td>
</tr>
<tr>
<td>1995-96</td>
<td>1574.3</td>
</tr>
<tr>
<td>1996-97</td>
<td>1586.6</td>
</tr>
<tr>
<td>1997-98</td>
<td>1658.0</td>
</tr>
</tbody>
</table>

Strategic Analysis of Somani Fabrics

Import growth was fairly significant during the year 1991-92. There was a moderate increase till the year 1993-94. Reduction in tariff protection led to stronger growth during the year 1995-96. Since then the import growth has been moderate (Figure 4.3).

**Figure 4.3 Domestic demand of TCF industry**


### 4.4.3 Related and supporting industries

The third key factor of national advantage in an industry is supplier and related industries that are internationally competitive. Porter (1990) states that competitive advantage in some supporting industries can benefit many industries.

The Australian garments manufacturing industry is highly supported by its distribution network. The well-developed retail industry is one of the major strength of the industry.

The warehousing and storage facilities both in the private and the public sector are highly developed when compared to any international standard or level. Australian ports are well equipped, and well connected with the shipping lines. The paper and packing industry has also gained competitive advantage in international markets.

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4.4.4 Firm strategy, structure and rivalry

According to Porter (1990), the pattern of domestic rivalry at home creates pressure on the firm to improve and innovate. Then they push each other to lower costs, improve quality and service and create new products and processes.

The industry is not highly concentrated. Overall the industry consists of a few large players and a high number of small establishments. The top eight enterprises represent only 18% of the total turnover. The remaining 82% are represented by small and medium enterprises. Therefore competition is high. Each of the major players is looking for overseas manufacturing bases to achieve price competitive advantages and to consolidate its market share. Mergers and take-overs are also taking place. The competition among the existing competitors is on the ground of pricing and quality.

4.4.5 The role of chance and government

According to Porter (1990), the above-mentioned four elements, put together, influence the competitive nature of an industry and help in determining the appropriate strategy for a firm.

- The role of government

The role of the government is one of the most important variables of the nation's competitive advantage. The policies of the government have significant impact. As mentioned in the PEST analysis, the government is playing a major role. The government removed the quota system during the year 1993 and is also reducing the import tariffs. The removals of quotas and reductions in tariffs have led to increases in the share of imports of clothing. Due to low entry barriers competition is increasing.
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The competitive atmosphere created by the government will bring benefits in the long term. The government is assisting its domestic firms to develop the export market. The government has introduced export development programs for international competitiveness.

- Chance

There are certain external factors beyond the controls of the firm which influence the interdependent relationship between the four determinants of Porter's diamond model. For example Australia faces natural calamities like El Nino weather, and cyclones. Importing goods under unstable environment can have a far-reaching effect. The testing of nuclear bomb by India in May 1998 was a chance event, which seriously strained the political, diplomatic, and defence relations between India and Australia.

4.5 Key success factors

The following are the key success factors that determines the profitability of an individual producer:

- brand strength,
- the quality and design of the product, and
- technological efficiency, export potential and marketing capabilities.

4.6 Conclusion

The study of external environment reflects a positive and supporting business environment. The political system is simple and consists of two major political blocks, which makes it politically stable. Australia has a mature industrialized economy with low interest rates and high per capita income.
Strategic Analysis of Somani Fabrics

Australia has a multi-cultural society. The population is low but has high standard of living. The unemployment rate is low. Australians are early adopters and heavy users of information technology.

Australia has low barriers to market entry, with high competition, high bargaining power of the buyers and high intensity of competition among the competitors. Many of the initiatives required to take advantage of emerging opportunities can only come from the firms themselves. Indeed, these are industries in which the very survival of firms depends upon their own innovative product and exceptional services at the lowest cost.
Chapter V

Strategic Analysis of Somani Fabrics

STRATEGY IMPLICATIONS AND DIRECTION
5.1 Introduction

The chapter focuses on the generation and selection of the strategy for Somani Fabrics. The primary and secondary data collected in chapters 3 and 4 as a part of external and internal environment are used here to generate strategy for Somani Fabrics. In order to formulate strategic direction for Somani Fabrics in the Australian market, it is necessary to analyse the company's strategic factors (strengths, weaknesses, opportunities and threats) in the light of the current situation. The evaluation of the external opportunities and internal strength to overcome external threats and internal weakness is done through SWOT analysis. The outcome of the SWOT analysis will provide a foundation in development of different strategies through a TOWS matrix. The outcome of the TOWS matrix will assist in identifying the company's distinctive competence.

5.2 SWOT

SWOT is an acronym for the internal strengths and weaknesses of the firm and the environmental opportunities and threats facing the firm. It is a systematic identification of these factors and of the strategy that represents the best match between them.

The SWOT analysis will evaluate Somani Fabrics internal strengths and weaknesses and its external opportunities and threats. This tool is fairly simple to use for deriving a quick overview of its strategic situation. The SWOT analysis will provide a strategic fit between the company's internal capabilities, which includes its strength and weaknesses with respect to the external situation.
5.2.1 Key strengths of Somani Fabrics

1. Management Experience: - Over the period of thirty years the management has gained sufficient expertise in the apparel industry from sourcing of fabric to printing, to stitching and finally to packing. The top-level management is committed to the survival of textile clothing and its related services. This is one of the reason the management has invested heavily in infrastructure and is of the opinion that technology is an area of investment rather than area of expenditure.

2. Customer Satisfaction/Loyalty: - Retention of customers for a period of more than 30 years itself speaks of the amount of satisfaction its customers are deriving. This has been made possible due to close liaising of management with its customers.

3. Adequate infrastructure: - The Firm is equipped with adequate infrastructure. It has its own printing, fabrication and finishing machines. The firm is least dependent upon outside services. The firm has a large production capacity, which not only helps the firm in economies of scale but the large production capacity will also help the firm to meet the increasing demand if any. The use of state of art technology provides better finish and reduces the production time and labour cost. This will benefit the firm to be cost competitive.

4. Tie up with top designers: - Tie up with the top designers helps the firm to develop products according to the changing fashion trends. In fact these designers can help the firm to meet the needs of the Australian market.

5. Strong and favourable location-base: - The firm is located on a national highway, which is well connected to rail and road network. The firm is located in Rajasthan state, which contains a large pool of skilled workers. The cost of labour is cheap compared to other states. The low labour cost and favourable location base helps the firm to have competitive advantage.
6. Government support and incentives for export activities: Somani Fabrics, being a government recognised export house, enjoys extra government benefits and facility in terms of incentives, duty draw back, and import licence. These benefits and incentives help the firm to be more competitive.

7. Product Quality: The firm has a rich experience of 30 years in producing the high quality garments. The quality of the garments is well established for 30 years with high quality conscious buyers of Japan.

8. Cost effective: Low labour cost and use of sophisticated state of art machine has enabled the firm to be cost effective.

9. Timely Delivery: Timely delivery by Somani Fabrics is one of the major strengths. They have a reputation of delivering goods right on time, which is quite contrary to the reputation of most Indian exporters. Since inception Somani Fabrics never had any cancellation of orders on account on delivery problem.

5.2.2 Key weaknesses of Somani Fabrics

1. Insufficient customer and competitors knowledge: Insufficient knowledge of customers and competitors in Australia is one of the major weaknesses of the firm as the firm has insufficient awareness about the customers' likes and dislikes, and above all the competitive environment of Australia.

2. No ISO certification: The company does not possess ISO certification. ISO certification is one of the ways to gain the buyer's confidence. ISO certification is a world wide recognised certification. The ISO certification enhances the reputation of the firm.
Strategic Analysis of Somani Fabrics

3. Centralised Control: - Somani Fabrics has a very high degree of centralised control. A high degree of centralised control can lead to wrong decisions. This may be on account of either increased burdens or difference in perceptions of handling the issues among the members. These differences may lead to conflicts.

4. No concise plan for future: - The firm does not possess any future plans. There is a mere expression on behalf of the company that they intend to explore new opportunities abroad; however no concrete steps have been taken in that direction. Thus the company is just surviving on its existing clients.

5. Exports highly concentrated: - Over the past 24 years the company's export has been primarily to Japan. Any changes in political relations between the two countries would severely hamper the company's performance.

6. Financial Soundness: -The financial soundness of the firm is another major weakness of the firm. The sales and profit margins are declining. There is under-utilisation of production facility. Beside these high liquidity indicates the weak financial management.

5.2.3 External opportunities

A major favourable situation in a firm's external environment is called opportunity (Pearce II & Robinson, Jr 1994). The most favourable emerging opportunities for Somani Fabrics are:

- Increase in demand: - The domestic demand is expected to increase from A$ 2029.7 million to A$ 2337.50 million during 1999-2003. The average annual growth rate will be 2.7%.

Presented by Sandeep Gupta
Rising garment import share: - Garment imports are consistently increasing and gaining strength. The import share of the domestic market is expected to increase from 26% in 1997-98 to 45.1% by the end of 2003-04.

Australia a quota-free market: - Australia is a quota free market. There are no specific restrictions or quota on garment import from overseas. Therefore barrier to entry is low compared to others.

Reduction in import duty: - Reduction in import duty provides an opportunity to the firm to be more competitive.

High labour cost: - Garment industry is a fairly capital and labour intensive. Labour cost is much higher in Australia compared to India. The ratio of labour to capital is estimated to be around 5.0:1.

Strong and stable economic growth: Strong and favourable economic growth provides a favourable climate for business.

Political stability: - Political stability ensures that the policies of the government will be consistent. It provides freedom of entry, investment and location.

Increasing trade between India and Australia: - The bilateral trade between Australia and India was A$ 1.25 billion in 1992-93. During the year 1997-98 the bilateral trade was A$ 2.54 billion. In a short span of 5 years the bilateral trade has doubled.

No language barrier: - Australia is an English speaking country and India has the largest English speaking population in Asia, hence there is no language barrier between the two countries.

5.2.4 External threats

Threats can negatively impact on the future growth of the firm. The major threats, which are likely to be faced by Somani Fabrics, are as follows:

- Existence of well-established competitors: - The established competitors can create a highly competitive atmosphere where the new entrant may find it difficult to sustain the competitive pressure.
Strategic Analysis of Somani Fabrics

- Likely entrance of new competitors: - The threat of new entrants limits the overall profit potential. New competitors, brings in capacity and seek market share, by pushing down margins.
- Large bargaining power of buyers: - Powerful buyers bargain away the profits for themselves.
- Increase in import duty: - Since the import duty structure is reviewed each year, any increase in the duty will effect the competitive position of the firm.
- Currency fluctuation: - Australia has closer economic relations with the Asian countries. Australia currency has fluctuated during the Asian crises Country like Indonesia is still working hard to over come the crises.
- Change in Fashion: - Styles, colours and fabrics are constantly changing. This creates the volatility in the market.

The SWOT analysis needs to be more than an exercise in making four lists. Some strategy relates to strengths and weaknesses that are critical and could be more important than others are, as they may account for significant value in the market place for implementing strategy effectively and efficiently. Some opportunities may be more attractive as compared to others and some threats may be more serious as compared to other threats. Hence, a TOWS matrix is an essential tool to formulate feasible alternative strategies.

5.3 Strategy formulation

5.3.1 Tows matrix

The threats, opportunities, weaknesses and strengths (TOWS) matrix is an important matching tool that helps the management to develop four different types of strategies: SO strategies, WO strategies, ST strategies and WT strategies (David 1997, p 179). The TOWS matrix was described in detailed in chapter 2.
Strategic Analysis of Somani Fabrics

It consists of six cells and, as shown in table 5.1, there are four key factor cells, four strategy cells, and one cell that is always left blank. As can be seen in table 5.1, the strategy cells are labelled SO, WO, ST, and WT. These four cells are developed after completing four key factor cells, labelled S, W, O, T.

The purpose of SWOT analysis is to generate feasible strategies and not to choose or determine the best strategies and then, considering the practicality of each of the strategies, to permit one to choose the most appropriate. A TOWS matrix for Somani Fabrics is provided in table 5.1 using the SWOT analysis that was developed in the preceding section of this chapter. By aligning the theoretical framework mentioned in chapter 2 and the above mentioned external opportunities and threats, and internal strengths and weaknesses, the TOWS matrix for Somani Fabrics can be illustrated as in table 5.1:

Table 5.1 TOWS matrix for Somani Fabrics

<table>
<thead>
<tr>
<th>T</th>
<th>O</th>
<th>W</th>
<th>S</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Management experience,</td>
<td>No ISO certification,</td>
<td>Insufficient customer and competitors knowledge,</td>
</tr>
<tr>
<td></td>
<td>Customer satisfaction / loyalty,</td>
<td>Centralised control,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Adequate infrastructure,</td>
<td>No concise plan for future,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tie up with top designers</td>
<td>Exports highly concentrated, and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strong and favourable location base,</td>
<td>Financial soundness.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Government support and incentives for export activity,</td>
<td>Idle Capacity</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Product Quality,</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cost effective, and</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Timely delivery.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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External opportunities – O
1. Increase in demand,
2. Rising garment import share,
3. Australia a quota free market,
4. Reduction in import duty,
5. High labour cost,
6. Strong and stable economic growth,
7. Political stability,
8. Increasing trade between India and Australia, and
9. No language barrier.

Environmental Threats – T
1. Existence of well established competitors,
2. Likely entrance of new competitors,
3. Large bargaining power of buyers,
4. Increase in import duty,
5. Currency fluctuations, and

SO Strategies
1. Enter the Australian apparel market through direct export or joint venture. (S1, S2, S3, S4, S5, S6, S7, S8, S9, O1, O2, O3, O4, O5, O6, O7, O8, O9.)
2. Open Sales Office in Melbourne/Sydney (S1, S3, S4, S5, S6, S7, S8, S9, O1, O2, O3, O5, O6, O7.)

ST Strategies
1. Create a brand image and customer loyalty towards the product. (S1, S2, S4, S7, S8, T1, T2, T6)
2. Joint Venture (S1, S3, S4, S5, S6, S7, T1, T2, T3, T5, T6)

WO Strategies
1. Internal company restructuring (W2, W3, W4, W5, W6, O1, O2, O5, O9.)
2. Joint Venture (W1, W3, W4, W5, W6, W7 O1, O2, O5, O6, O8, O9)
3. Appointment of agent (W1, W3, W4, W5, W6, O1, O2, O3, O4, O9)

WT Strategies
1. Agents in Australia to develop communication with distributors (W1, W3, W4, W5, W6, W7 T1, T2, T5, T6)
2. Export Strategy (W3, W5, W6, W7 T1, T2, T3, T6)

Source: Survey data collected on Somani Fabrics

5.3.2 SPACE matrix

The SPACE matrix is another important matching tool. The SPACE matrix was discussed in chapter two. The format of the SPACE matrix is illustrated in figure 5.1. The SPACE matrix consists of four quadrant aggressive, conservative, defensive, or competitive strategies. Each of the four quadrants represents the type of appropriate strategy for the Somani Fabrics. Each quadrant consists of internal and external dimensions. Internal dimensions consist, variables of financial strength (FS) and competitive advantage (CA). External dimensions consist variables of industry strength (IS) and environment stability (ES) (see figure 5.2).
Both internal and external dimensions consist of numerous variables, which can be regarded as the most important determinants of Somani Fabric's overall strategic position (David 1993).

1. Assign a numerical value ranging from +1 (worst) to +6 (best) to each of the variables of financial strength (FS) and industry strength (IS) and for environmental stability (ES) and competitive advantage (CA) value ranging from -1 (best) to -6 (worst).

2. After assigning the values for each variable, compute the average score for each ES (see figure 5.3), IA (see figure 5.4), CA (see figure 5.5), and FS (see figure 5.6),

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dimensions by summing each dimension's factor rating and by dividing the number of variables included in the respective dimension. This will provide the average score.

3. The next step is to plot the average score on the appropriate axis in the space matrix.
4. The x-axis and y-axis will consist of two scores. Add the scores of x-axis and y-axis.
   Plot the resultant point on the x-axis and y-axis.
5. Plot the intersection of new xy points
6. Draw a directional vector from the origin of the space matrix through the new intersection point. This new vector reveals the most appropriate strategy for Somani Fabrics.

- **Industry assessment**

Industry strengths and environmental stability are the two categories of the Industry strengths for strategic position. Somani Fabrics financial strength is also important to overcome adverse economic conditions, for example rising inflation or interest cost.

<table>
<thead>
<tr>
<th>Environmental Stability (ES)</th>
<th>Industry Strength (IS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Rate of inflation</td>
<td>a) Growth potential</td>
</tr>
<tr>
<td>b) Barrier to entry</td>
<td>b) Profit potential</td>
</tr>
<tr>
<td>c) Currency Fluctuation</td>
<td>c) Financial stability</td>
</tr>
<tr>
<td>d) Demand</td>
<td>d) Technological know-how</td>
</tr>
<tr>
<td>e) Economic Growth</td>
<td>e) Capacity Utilisation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Competitive Advantage (CA)</th>
<th>Financial Strength (FS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Product quality</td>
<td>a) Liquidity</td>
</tr>
<tr>
<td>b) Customer satisfaction/loyalty</td>
<td>b) Profit margin</td>
</tr>
<tr>
<td>c) Production capacity</td>
<td>c) Return on assets</td>
</tr>
<tr>
<td>d) Technological know-how</td>
<td>d) Inventory turnover</td>
</tr>
<tr>
<td>e) Infrastructure</td>
<td>e) Risk</td>
</tr>
</tbody>
</table>

Table 5.2 Variables that comprise the SPACE matrix


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Strategic Analysis of Somani Fabrics

Table 5.3 Factors determining environmental stability (ES) for Somani Fabrics

<table>
<thead>
<tr>
<th>Rate of Inflation</th>
<th>Low</th>
<th>-1</th>
<th>-2*</th>
<th>-3</th>
<th>-4</th>
<th>-5</th>
<th>-6</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barrier to entry</td>
<td>Few</td>
<td>-1</td>
<td>-2</td>
<td>-3</td>
<td>-4</td>
<td>-5</td>
<td>-6</td>
<td>Many</td>
</tr>
<tr>
<td>Currency Fluctuation</td>
<td>Low</td>
<td>-1</td>
<td>-2</td>
<td>-3</td>
<td>-4</td>
<td>-5</td>
<td>-6</td>
<td>High</td>
</tr>
<tr>
<td>Demand</td>
<td>Large</td>
<td>-1</td>
<td>-2</td>
<td>-3</td>
<td>-4</td>
<td>-5</td>
<td>-6</td>
<td>Small</td>
</tr>
<tr>
<td>Economic Growth</td>
<td>High</td>
<td>-1</td>
<td>-2</td>
<td>-3</td>
<td>-4</td>
<td>-5</td>
<td>-6</td>
<td>Slow</td>
</tr>
</tbody>
</table>

* Selected values for computation are marked in bold

Average = -3.0

Table 5.4 Factors determining industry strength (IS) for Somani Fabrics

<table>
<thead>
<tr>
<th>Growth Potential</th>
<th>Low</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit Potential</td>
<td>Low</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>High</td>
</tr>
<tr>
<td>Financial Stability</td>
<td>Low</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>High</td>
</tr>
<tr>
<td>Technology</td>
<td>Large</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>Small</td>
</tr>
<tr>
<td>Capacity Utilisation</td>
<td>Low</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>High</td>
</tr>
</tbody>
</table>

Average = 2.2

Table 5.5 Factors determining competitive advantage (CA) for Somani Fabrics

<table>
<thead>
<tr>
<th>Quality</th>
<th>High</th>
<th>-1</th>
<th>-2</th>
<th>-3</th>
<th>-4</th>
<th>-5</th>
<th>-6</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Satisfaction</td>
<td>High</td>
<td>-1</td>
<td>-2</td>
<td>-3</td>
<td>-4</td>
<td>-5</td>
<td>-6</td>
<td>Low</td>
</tr>
<tr>
<td>Production Capacity</td>
<td>High</td>
<td>-1</td>
<td>-2</td>
<td>-3</td>
<td>-4</td>
<td>-5</td>
<td>-6</td>
<td>Low</td>
</tr>
<tr>
<td>Technology</td>
<td>Small</td>
<td>-1</td>
<td>-2</td>
<td>-3</td>
<td>-4</td>
<td>-5</td>
<td>-6</td>
<td>Large</td>
</tr>
<tr>
<td>Backward Integration</td>
<td>High</td>
<td>-1</td>
<td>-2</td>
<td>-3</td>
<td>-4</td>
<td>-5</td>
<td>-6</td>
<td>Low</td>
</tr>
</tbody>
</table>

Average = -2.8

Table 5.6 Factors determining financial strength (FS) for Somani Fabrics

<table>
<thead>
<tr>
<th>Liquidity</th>
<th>Low</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit Margin</td>
<td>Low</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>High</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>Low</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>High</td>
</tr>
<tr>
<td>Inventory Turnover</td>
<td>Low</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>High</td>
</tr>
<tr>
<td>Risk</td>
<td>High</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>Low</td>
</tr>
</tbody>
</table>

Average = 2.4

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## Conclusion

<table>
<thead>
<tr>
<th></th>
<th>FS average is</th>
<th></th>
<th>ES average is</th>
<th></th>
<th>CA average is</th>
<th></th>
<th>IS average is</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1215</td>
<td>= 2.4</td>
<td>1615</td>
<td>= -3.0</td>
<td>1415</td>
<td>= -2.8</td>
<td>1115</td>
<td>= 2.2</td>
</tr>
</tbody>
</table>

Directional vector co-ordinates

- X axis $2.4 \pm (-3.0) = -0.6$
- Y axis $(-2.8) \pm 2.2 = -0.6$

---

**Figure 5.2 Space matrix of Somani Fabrics**

- A SPACE analysis in figure 5.2 shows Somani Fabrics in the defensive directional vector. This quadrant suggests that Somani Fabrics should focus on defensive selling technique. The firm should overcome its weakness first before entering the Australian market. The quadrant suggests that the firm has a very little competitive advantage and financial stability.

Source: - Rowe, A. 1982, p. 156

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5.4 Alternative strategies

The TOWS matrix has indicated several alternative strategies for Somani Fabric to enter into the Australian market ranging from direct exports to joint venture for entering the Australian market.

It is important to understand the pros and cons of each alternative strategy before entering the Australian market. From the analysis of the TOWS matrix there are three broad entry options, namely:

- direct exporting,
- joint venture, and
- internal company restructuring

![Figure 5.3 Feasibility entry options](image-url)

Source: Author
5.4.1 Direct export

Direct export means that the manufacturer or exporter sells the goods directly to the buyer overseas. As indicated in figure 5.3, direct export can be undertaken in different ways. Direct export can be made with the direct interaction between the buyer and seller or through an agent. These agents can be in the home country or in the host country. Direct exporting firm requires larger degrees of enterprise.

- Distributor or Agent

Quite often the words 'distributor' or 'agent' are used synonymously. But in fact there is distinct difference. The distributor in fact is a customer whereas the agent is a representative of the firm. In the case of a distributor, the title of the goods passes to him whereas the agent holds the goods on behalf of the firm. From the sale of goods the distributor gets the profit whereas the agent gets a commission.

Advantages

- **Market information:** A distributor or an agent has a better understanding and knowledge of the Australian market. It would be easier for a firm to communicate with them. Since these people have better market knowledge, hence they will be in a better position to do a market forecast.

  **Contacts:** A distributor or agents being Australian, they would have better contacts in the Australian market. Moreover people dealing with them will have more confidence than in dealing with the foreign firm directly.

- **Less capital investment:** Appointment of a distributor or an agent is less expensive and cumbersome than exploring the market itself. Thus the savings so made can be used for other productive purposes.
Strategic Analysis of Somani Fabrics

Easy to get orders: The distributors and agents are directly and continuously in touch with their clients. The likelihood of getting initial and repeated orders is greater in the case of distributors and agents.

No liability: Once the agents approve the goods after inspection, Somani Fabric will have no liability towards the customers.

Disadvantages

One of the biggest disadvantages of direct exporting through agents and distributors relates to time. With the appointment of more and more intermediaries, the delivery of the goods to the final client is delayed. This may lead to shift in clientele.

Generally it is the case that agents are handling a number of clients. Therefore it cannot be expected that the agents will give all their attention to Somani Fabrics. It is difficult to ensure professionalism and efficiency of the agency.

5.4.2 Joint venture

A joint venture is an association of two or more people or firms. In the case of exports a joint venture is generally between the two firms from different countries. This type of strategy is best suited for multinational companies. Generally it is seen that the multinational companies seeks a joint venture for entering a foreign market. Joint venture has its own risks. These risks should be evaluated on the basis of their merits.

Joint venture is one of the possible options for Somani Fabrics for going global. It would allow them to enter the Australian market with limited human resources. Moreover the external analysis indicates that there are firms which have already entered into joint venture, and more are willing to enter in order to be more competitive. By entering into a joint venture, Somani Fabrics can be benefited from the management skills and experience of the associate partner. Beside these advantages, there are some
Strategic Analysis of Somani Fabrics

disadvantages too. Many times it has been seen that the partnership becomes undesirable when the conditions change or over sharing market information. Thus it would be beneficial for Somani Fabrics in the initial stage, but not necessary in the longer term.

5.4.3 Internal company restructuring

In the internal analysis of Somani Fabrics, we have seen that the firm lacks element of communicating its mission across the firm, setting up long-term and short-term objectives, proper delegation of authority, and sharing work responsibility. Somani Fabrics has inadequate human resource. There is a need to have adequate human resource and proper training for them. The firm is well equipped with the infrastructure but has failed to get its benefit. It lacks internal support to approach the market. These internal problems are putting obstacles in the growth of the firm and requires immediate attention. Internal restructuring is the first and the foremost important step, which the firm should undertake.

5.5 Conclusion

This chapter is able to generate different alternative strategies with the help of TOWS analysis. The different alternative strategies are discussed in detail with their merits and demerits. These different alternative strategies are recommended to Somani Fabrics. Adoption of these strategies should be made on the basis of merits and priorities. The next chapter will discuss the implementation aspect of these strategies.
Chapter VI

Strategic Analysis of Somani Fabrics

STRATEGY

IMPLEMENTATION
6.1 Introduction

Implementation of strategies

Generation of successful strategy does not guarantee successful strategy implementation. For successful implementation of the strategy certain actions like adding new departments, hiring new employees, changing pricing strategy, development of financial budgets and establishing cost control procedures are necessary.

For the successful implementation of appropriate strategy, Somani Fabrics should focus on every aspect of the organisation, ranging from manufacturing, human resource, research and development and finance. In order to have a consistent effect of the recommended strategy, it is important that the strategic plan is divided into stages. For example establishing annual objectives, drafting of policies, allocation of adequate resources, altering existing organisation structure and minimising resistance to change on the part of the employees. These are necessary to create a link between the external and internal environment of the organisation and the strategy.

6.2 Proposed strategy 1: Internal company restructure

1. Annual objectives

Annual objectives are important for any organisation as they represent the basis of allocation of resources. They are the prime mechanism for evaluating human forces involved. Somani Fabrics should divide its annual objectives into small logical targets. These small targets are to be accomplished in a stipulated time frame.
2. Policies

Somani Fabrics should articulate policies to make a strategy work. These policies should set boundaries, constraints, and limits on the kinds of administrative actions. Policies will let the employees and managers know what is expected of them, thereby increasing the possibility of success.

3. Resource allocation

All organisations have basic resources in the form of financial resources, physical resource human resources, and technological resources. Effective allocation of these resources does not guarantee successful strategy implementation because programs, personnel, control, and commitment must breathe life into the resources provided, only then the strategy implementation will be a complete success. Somani Fabrics does not have effective resource allocation. Financial resource and management is weak. It has very high unproductive liquid assets. The firm needs to invest these into productive investments. The firm also does not have adequate human resource This could be achieved by adopting a policy of outsourcing, compared to insourcing. There are consultants from well recognised universities as well as there are universities which conduct This would reduce the quantity, whereas increase the quality of the human resources within the middle and lower management. Since the company has no prior experience in the Australian market, it would be advisable that the firm should either hire or employ managers from other MNCs or domestic companies who have an in depth knowledge of the buying habits of Australian customers, and the Australian market and environment.

4. Matching structure with strategy

Different strategy needs a change in structure. The structure of the organisation should be designed so that it facilitates the strategic pursuit and therefore follows strategy. It is for the organisation to see that the structure is well integrated. Devised strategy should ensure that organisational objective and targets are achieved. To conclude strategy
implementation means a change. For a successful strategy implementation, it requires support not only from the top management but also discipline, motivation and hard work from all concerned. Somani Fabrics needs to involve its employees in the process of development and implementation of strategy. The workers should be allowed to express their opinions, make valuable suggestions and criticise decisions made by the top management, if they feel they are not appropriate. The participation of lower would help in eliminating or reducing the communication gap between the top and lower management. This may increase the motivation of the employees and may help them come out with more creative ideas, which could prove useful to the firm for the future.

The development of the strategy was made after thorough external analysis of the market. The structure of the market or the demand is not likely to stay constant and is expected to change from time to time. Hence the implementation of the strategy should be made within the period of 6 months. If implemented later it is very likely that the results may not be that encouraging as the real impact of the strategy will be lost. The firm will have to appoint human resources either in Australia or send some of its professionally qualified management to scan the Australian environment not only for the present scenario, but as well as for the future scenario, within every six months. This would help to effectively put into action the various strategies formulated, and to renew them.

6.3 Proposed strategy 2: Direct export

Direct export strategy can be broadly classified into two stages. The first stage is the planning and preparation and the second stage is the actual implementation. Since the firm is already in the business of exports and they are doing most of the things while exporting to Japan, the researcher has concentrated on planning and preparation of direct export to Australia.
6.3.1 Planning and preparation

✓ Once Somani Fabrics has decided to enter a market through direct export, the firm should choose a specific regional market as its focus,
✓ Research the market by reviewing the information available from the department of foreign affairs and international trade as well as from trade publications and magazines,
✓ Visit cities in the region, talk to potential buyers and intermediaries,
✓ Develop a network of contacts of potential buyers,
✓ Find out who their potential competitors and potential allies are and who are the most important importers, distributors and agents for their product,
✓ Put together a promotional package describing the company and its products,
✓ Identify, attend and participate in trade fairs,
✓ Do some preliminary promotional work and establish contacts with potential buyers and associates,
✓ Place an add in Australian trade magazine that is widely read by the potential buyers, and
✓ Make arrangements with key export service providers such as buying house, freight forwarders and trading house.

6.4 Proposed strategy 3: Joint venture

Somani Fabrics, when deciding to enter into a joint venture partnership, must look into the following details.
✓ Determining the exact cost involved along with the analysis of the future options,
✓ Choosing the best location for the project in terms of infrastructure and incentives.
   Since each state government is competing, therefore they provide different incentives to attract business. Incentives can be in form of physical infrastructure, state government support, and flexibility,
If seeking a partnership with the Australian firm, it is important to understand that even some of the large and apparently successful Indian companies don't necessarily run as smoothly as the potential Australian counterparts, and

Understanding the legal compliance requirements that must be met once the joint venture is affected viz. corporate laws, labour laws, and direct and indirect issues.

In a nutshell, Somani Fabrics should look for a partner, which meets its objectives with requisite skills. Somani Fabrics should also perform the credit check of the proposed partner and then negotiate the details of contracts, subsequently arriving at memorandum of understanding (MOU) and finalising the joint venture. It is strongly recommended that the services of a professional, competent person should be sought for the finalisation of a joint venture agreement.

6.5 Conclusion

Chapter 6 provides the Strategy implementation process for Somani Fabrics. The selection and implementation of strategies are at sole discretion of Somani Fabrics. However the author has discussed all the three-alternative strategies implementation on the basis of degree of priorities. Somani Fabrics will succeed in tapping the great potential of the Australian market through careful research and well designed plan.
Chapter VII

Strategic Analysis of Somani Fabrics

CONCLUSIONS AND RECOMMENDATIONS
7.1 Conclusion

"Results are gained by exploiting opportunities, not by solving problems"

(Aaker 1998, p. 203)

The world economy is undergoing considerable changes, from the re-mapping of the economic landscape to fundamental changes in the way of learning and entertaining. This has led to the birth of the new society, and the suppression of the old infrastructure. As the world moves towards a new millennium, technology will be the powerhouse of the emerging post-industrial age. This is no longer simply a dream of the future. The new generation is influencing every fabric of human life.

It was found that there might be an opportunity for Somani Fabrics to enter the Australian market, provided they get competitive price for their products in the future. In order to achieve its objectives and vision, Somani Fabrics needs changes in its strategies and policies. To understand the strategies and policies, the author has carried out internal analysis of the company and external analysis of the Australian clothing industry. The author has also analysed the current Australian environment using several models, such as PEST Analysis and Porter's Five Forces model. At the same time, internal analysis was conducted to study whether the company can get a competitive advantage in the Australian clothing market.

The data assembled in these chapters were refined using the SWOT analysis, which helped in identifying the internal strengths, and weaknesses, as well as external opportunities and threats. Then a TOWS matrix was used as 'matching tool' to generate several strategies for Somani Fabrics.

Finally, the study helped by recommending the most suitable immediate action to reduce internal weaknesses to achieve the vision and objectives for the company.
7.2 Recommendations

It is always difficult for the company to select options for entering the Australian Clothing market place, but it should always be kept in mind that the external and internal environment affects these strategies. As these environments are turbulent by nature, there are chances that there may be some other strategies which might be more suitable for particular environments.

Currently the company's export turnover is not stable. The company's export is confined to Japan only. The financial position of the firm is quite stable at present. That does not guarantee that the company will enjoy financial stability for the years to come. The decreasing turnover of the company and decline in profit margin is sending warning signals to the management to reconsider its strategy.

In order to sustain the competitive advantage in the field of exports, the company should consider the following key issues.

1. Somani Fabrics needs to communicate the mission and vision properly throughout the organisation because a mission statement has following benefits:
   • A mission statement in Somani Fabrics can help to achieve consistency and unanimity of purpose throughout the enterprise. Employees know the values that the business strives to maintain.
   • It serves as a reminder of the performance standards and provides motivation for the maintenance of those standards.
   • It even provides an important focus and screen for the selection of appropriate strategies and functional objectives.

2. The company should set up its long-term and short-term goals. The setting up of these goals should be reasonable and achievable. Periodic review of the goals should be made. Any deviation should be looked into for immediate correction.
3 To overcome the problem of lack of communication and work responsibility, the company should prepare a document clearly mentioning and separately defining the functions and responsibilities of individual departments.

4 It is very important to review employee attitude, morale, and level of satisfaction and motivation every quarter, if not every month.

5 It is recommended that the company should engage itself in the market research. A department should be created exclusively for the purpose of the market research.

6 Somani Fabrics should take advantage of this opportunity by an early entry in the Australian apparel market and develop its customer base.

7 Somani Fabrics should directly export its products to importers. Direct exporting operations require a larger degree of expertise. By direct exporting of goods Somani Fabrics will have better control over the distribution channel. Somani Fabrics can also export through Australian firms buying agents in India. The company will not lose its 100% export house status if exporting its goods through buying agents.

8 In Australia, the majority of the buyers are brand conscious. Somani fabrics should create a brand image and customer loyalty towards its product. Offering quality products at competitive prices can do this. Somani Fabrics should be as competitive as China or other Asian competitors. Furthermore, it should lay stress on timely delivery and quality of goods. While dealing with buyers, Somani Fabrics needs to understand their buyers' needs carefully. The firm should develop a constant rapport with the buyers. They should visit the country 3-4 times in a year and also participate in trade exhibitions to get more exposure and new contacts.
Another important strategy can be developing an extensive sales and marketing campaign for the company since the market is very sensitive. The advertising can capture a much bigger market in a short span of time.

It is recommended that the firm should develop a promotional package, with reasonable better quality in and be price competitive with respect to its competitors.

Somani Fabrics should keep a close watch on the current situation of the Australian market in respect of the development of new policies towards TCF industry, and changes in import tariffs and duties. Currently the import tariffs have been frozen at 15% until 2005 and will then be cut to 10%. Hence, the Australian clothing industry in the future might be characterised by a small number of large companies. These companies will lay heavy emphasis on offshore sourcing.

With a population of just 18 million people, Australia is a much smaller market compared to Europe. Therefore, Somani Fabrics should not have high expectations in terms of obtaining large orders while entering the market. Initially the firm should be prepared to take small orders. This way the company will be able to test the market.

7.3 Future directions for research

The Australian apparel industry is influenced by many factors such as government rules and regulations, competitors, technology, customer and suppliers etc. Any change in one of the factors can affect the industry as a whole. As a result, it may lead to drastic changes in the strategies and structure of the company. The author believes that the report has covered every possible important aspect, but due to certain limitations outlined in the report he was unable to provide current information.
To succeed in the new market, it is utmost important for a company to do thorough market research. Thus it is highly recommended that Somani Fabrics gather as much information as it can, to look at the needs and wants of the potential customers more closely. Also, Somani Fabrics should conduct further research into analysing international and local competitors. By doing this, Somani Fabrics will be able to judge the intensity of the competition and then can make decisions accordingly.

Somani Fabrics should also attempt to identify the Australian rules and regulations regarding the appointment of an agent/distributor. The credit rating of the agents/distributors should be obtained. In this manner, Somani Fabrics could play safe. It is significant for Somani Fabrics to undertake the above stated researches in order to make the entry into Australia a success and it is strongly recommended in this report.

7.4 Summary

A relationship with a foreign company to promote, market, and sell Somani Fabrics products would be a major step in the development of Somani Fabrics export business. Somani Fabrics has a history of maintaining long-term relationships with their existing buyers. A close, supportive, and prosperous relationship will help the firm to have long-term commitment.

The strength of the relationship is a direct function of how much the management is contributing to make it work. The representative appointed by Somani Fabrics will be too distant for day-to-day contact. The quality of that representation, by either a distributor or an agency, is linked to the attention and support provided by the management of Somani Fabrics. If goodwill and good intentions do not attend the execution of an agreement, the business relationship will be unsuccessful. The utmost care should be taken in the selection of a representative. It should also be careful in the selection of a supplier. Somani Fabrics should deliver a quality product with quality
service with a view toward a long-term presence in the Australian market and take care to promote it with sensitivity to cultural factors (Gordon & Arnold 1988, p. 75).
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