

Competitive Strategy Formulation

Case study

Of

Dahlak Share Company

In Eritrea

By

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CONFIDENTIALITY CLAUSE

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TO WHOM IT MAY CONCERN

RE: CONFIDENTIALITY CLAUSE

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

Sincerely,

T.T. Abbay

Signed.....

date 08/07/2004.....096909

DECLARATION

This research has not been accepted for any degree program and is not being submitted in candidature for any degree.

I therefore declare that this is my sole job.

Signature:

Date:

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I give thanks to my Lord in the name of *Jesus* for His caring and guidance in all of my steps.

I also convey my great appreciation and gratitude to the following people:

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DEDICATION

This work is dedicated to:

My brother Meron Kidane

ABSTRACT

A company without proper strategy is like a person without sight. The research deals with identifying the lost market that the company could not yet replace due to border conflict with Ethiopia, and with recommending future actions. The main goal of this research is to assess and analyze the external and internal situations of Dahlak Share Company.

In order to formulate the best strategy, the company resources must correlate with the macro and microenvironment situation. Dahlak Share Company operates in Asmara, capital of Eritrea and it sells its products in local market and foreign countries, mainly in the Great Lakes region of Africa. Therefore, assessing and analyzing Eritrean and relevant other countries' situation, information regarding the footwear industry, stakeholder's interest and the company's capacity lends significance to the quality of the formulated strategy.

The discussion on the research objective is based on the strategy formulation process. This research is a case study and is qualitative in nature. Therefore, financial reports, and other relevant company documents are used to collect the secondary data. Interviews have also been conducted with the company's management body to collect the primary data.

According to the study findings the company has the opportunity to increase the demand of the Great Lakes region of African market and consciousness of Eritrean customers insistence on best quality products. The company is well branded in the region and it is known for its long time experience in shoe production. Moreover, the company has a strong management staff. Though there is tough competition in local and international market, Dahlak Share Company is able to succeed by minimizing unnecessary cost and improving the quality of its products.

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Chapter one: Introduction

1.1 Introduction

A strategy is the direction and scope of an organization over a long term; which gives advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets to fulfill owners' expectation (Internet 1).

Drawing a careful conclusion about what the company's long term direction enables managers to take a hard look into the company's internal and external environment and form a clear picture on how its present business needs will change over the next few years.

The purpose of this chapter is to discuss the research proposal, which includes the company's background, objectives and the structure of the study. At first the background of Dahlak Share Company is briefly explained.

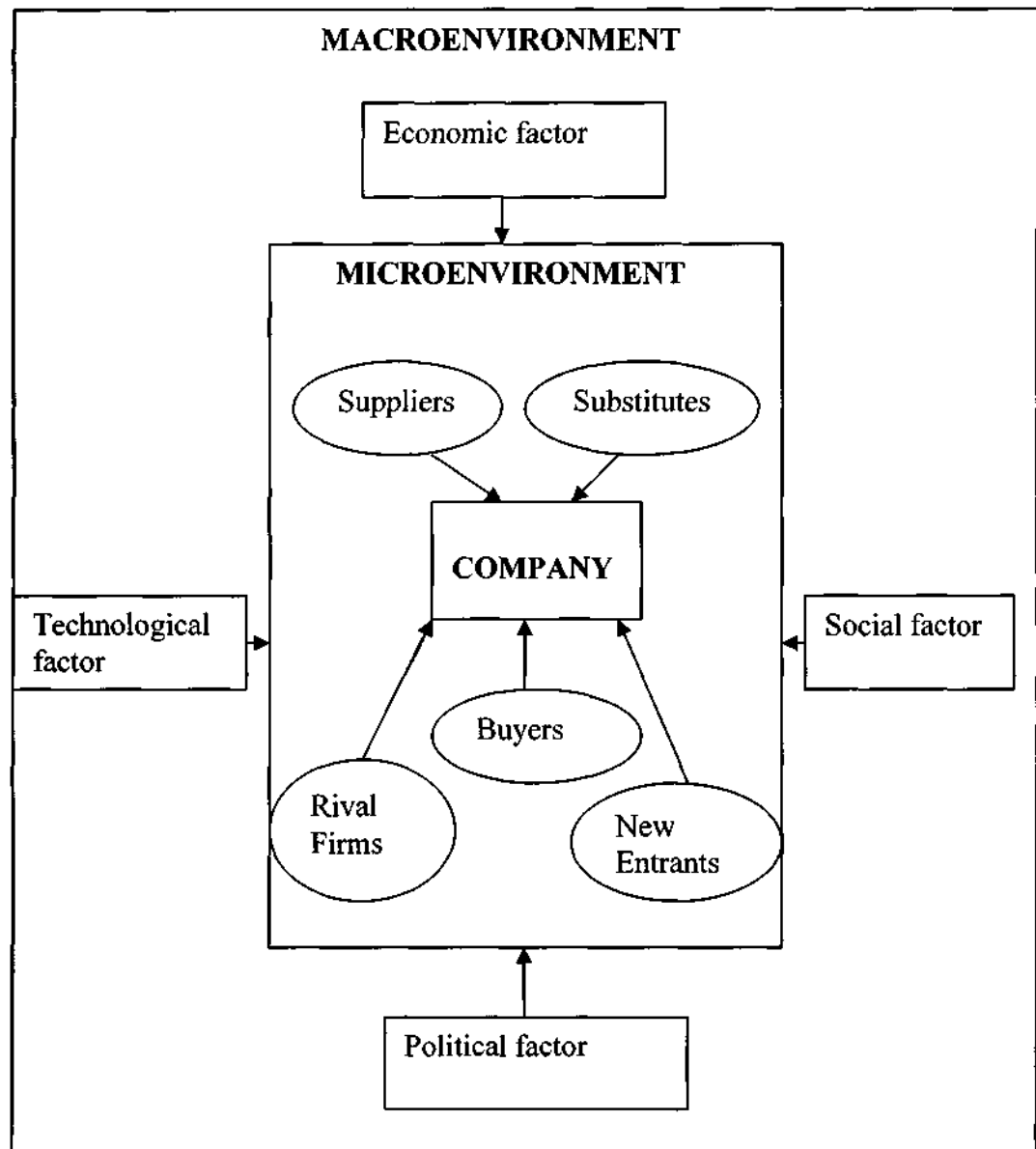
Dahlak Share Company is one of the main Eritrean producing companies that operates by importing some of its raw material from abroad and local supplies. It also sells its products in domestic and foreign markets. The company is expected to have sound strategy, which enables it to compete in the highly competitive global market.

The main objective of this research is to assess the internal and external environment of the company. In relation to its vision, mission and objectives the researcher has reached a strategic choice that is thought to be beneficial to the improvement, amendment, or encouragement of the company's strategy.

In addition to the main problem, the researcher stated two research sub problems that enable one to measure the present situation of the company and its environment. The entire research is based on the structure of the internal and external strategy assessment. PEST analysis and Five Forces Model are used to evaluate the external environment; Life Cycle Analysis, Value Chain Analysis model, and SWOT analysis are used to evaluate the capacity of the company. At the end of the paper appropriate competitive strategy is

recommended based on the external and internal environment evaluation. Figure 1.1 is the appropriate framework of this study.

Figure 1-1: Framework for strategy formulation.



To use this framework for the study, it is necessary to have a general overview of the company.

1.2 Overview of the organization

Dahlak Share Company was a privately owned company, which had been operating in Asmara since the Italian colonization. Later on, the Ethiopian regime had nationalized all Eritrean Companies including Dahlak Share Company. After the liberation of Eritrea in 1991 the company's performance began to improve. According the new development policy of the government of Eritrea, Dahlak Share Company was privatized in 2001.

The company imports some of its raw materials such as chemicals from abroad. Most of the hide and leather is supplied by Red Sea tannery. This local product is poor in quality and the chemicals from abroad are expensive. These are some of the main hindrances to the competitive capability of the company.

Before 1998 most of the company's footwear was exported to Ethiopia. However, after the boarder conflict, the company shifted its market towards the Great Lake Countries such as Uganda. Dahlak Share Company is also one of the major local suppliers in Eritrea.

According to Hailemariam (2001), the quality of the raw materials that the tanneries receive influences the profitability of both the tanneries and the shoe manufacturing companies. Quality is the principal price determinant. Eritrea is endowed with a wealth of cattle, goats and sheepskins, which are regarded as particularly desirable for manufacturing leather goods. The discussion with the interviewees indicated that the skins of animals from the highland area are of better quality than the skins of animals from the lowland areas. However, there is a problem in collecting and transporting the skins. According to the general manager of the Dahlak share company, the world footwear and leather products sector is moving from high-costing industrialized countries to developing countries. Many African companies have strong potential in this sector with enough raw material and human resources, but have to date remained suppliers of raw and semi finished products; only a limited number of them have developed the capacity to produce finished products. Lack of management, marketing and technical skills at every step in the process, resulting in a low rate of raw material recovery and

poor product design, have constrained the development of the leather industry in many countries. Although improvements over the last decade have been great, the export potential of the sector still suffers from lack of long-term product and market development strategy on the part of producers including lack of trade support services and development facilities such as exchange of market information, business contacts, insufficient trade finance and training, advice in product and market development (Tewelde, 2002).

Unawareness on the part of importers with respect to sourcing African opportunities is also a major constraint to the development of the leather industry in many African countries. Thus as a part of the Footwear Industry what strategy should Dahlak Share Company use to mend these weaknesses?

1.3 Motivation for the study

At present the strategy of an organization is becoming highly important and critical. It is important in a sense that it enables the company to be cost effective, quality conscious and highly competitive in the contemporary global market. Dahlak Share Company must evaluate its internal and external factors and formulate appropriate strategy congruent to the present situation.

Due to the reasons for the research it has become necessary to assess how the Dahlak share company is using the current strategy and what amendments or improvements are needed to be highly competitive.

The literature review of the paper is intended to set the best theoretical framework for the formulation of competitive strategy.

In chapter two the actual activities of the company in relation to the market is written based on interviews and related secondary data. Summarized conclusions are given and practical recommendations are presented at the end of the paper.

All the material used in the research paper is aimed at solving the research problem. The research problem of Dahlak Share Company is as follows:

1.4 Problem statement

More than 80% of Dahlak Share Company products' market was in Ethiopia. After the border conflict the company lost the entire Ethiopian market. Since then the company is trying to compete in local and international market by conducting research on quality development for new markets, rehabilitating, replacing and installing its machinery, and equipment and reviewing organizational structure and staff.

However, the company has not succeeded in reversing the market they have lost due to the underlying circumstance. Currently the company's capacity is beyond its market. The main reason for underutilization of the company is the absence of an appropriate strategy. Dahlak's problem is that it is not able to get the appropriate strategy to compete in the local and global market. The core of the study is stated in the form of a question.

- *“What strategy should the Dahlak Share Company adopt to be competitive in local and international markets?”*

Strategy is the way by which an organization attains its own goals (Internet 1). The main intention of this paper is therefore to evaluate the internal and external environments of the company and choose the best competitive strategy. In brief we can have two sub problems, which could give way to the solution of the main problem.

- What is the internal situation of the company?
- What is the external situation of the company?

The research is mainly based on the above problem.

1.5 Objectives of the study

Strategy must be judged on its performance and effectiveness to meet the overall vision mission and objectives. Strategy is not an end by itself but a means to attain the stated goals. The main objective of this research paper is:

- To evaluate the internal situation of the company.
- To evaluate the external situation of the company.
- To evaluate the effectiveness of the current strategy.
- To provide further recommendation to the future strategy of the company.

To meet these objectives, appropriate research methodology must be selected.

1.6 Research methodology

Research methodology is the application of scientific procedures to acquire answers to wide variety of research questions (Cooper &Schindler 2003). It provides tools for doing research for obtaining useful information. Methodology incorporates the entire process of a study. That is, conceptualizing and observing the problem under study and research question, data analysis and generalization of results.

The research question of this study addresses the issue of strategy formulation. Understanding the internal and external situation of the company are both big steps in the operation of this research. Porter's five forces model indicates the four activities taken by the company in order to be competitive in the industry. The value chain analysis is the second model that helps to understand what internal activities of the company are.

There are qualitative and quantitative research types. Qualitative data are attractive for many reasons. These type of data are rich, earthly, holistic, real; their face validity seems unimpeachable, they preserve chronological flow where that is important, and suffer minimally from retrospective distraction; and they in principle offer a far more precise way to assess causality in organizational affairs than arcane efforts like cross logged correlation (Cooper &Schindler 2003).

From different types of qualitative research, a case study is used in this research. The choice of the case study method thus provides an opportunity to make an in-depth investigation. However, it has a limitation on the number of companies to be studied due to time and cost constraints. Therefore, this work is limited to one case in Dahlak Shoe Company. The appropriate data collection process is explained below.

1.7 Data collection

Data is defined as the facts presented to the research from the study's environment (Cooper &Schindler 2003). The data collection report describes the specifics of gathering the data. In this research two types of data are necessary for the completion of the paper.

1. ***Secondary data***: secondary data is very important in assessing the internal and external situation of the company. The main sources of the secondary data are Internet findings, strategy related books, company records, previous journals, research papers, and other published materials.
2. ***Primary data***: is also incredibly important to get the information that is not available in the secondary data. We might have several choices to collect the primary data. In relation to this research type, an in-depth interview is conducted with concerned authorities.

It might not be easy to dispose of sensitive information for the organization. The research might not be totally free from some constraints. Some limitation that come to pass are stated below:

1.8 Limitations of the study

To formulate the best strategy for an organization one can use as many methods as possible to assess the relevant situation. Both qualitative and quantitative methods can be used. Several models and other evaluative mechanism may be used to get more appropriate result. However, this research is limited to the qualitative research using few models. The main constraints that enforced to narrow the scope of the research are limitations in budget and time, and some cases related to the confidentiality of the information.

1.9 The structure of the study

Basically this research will consist of five major parts. An outline of the proposed content of literature review and preceding chapters are:

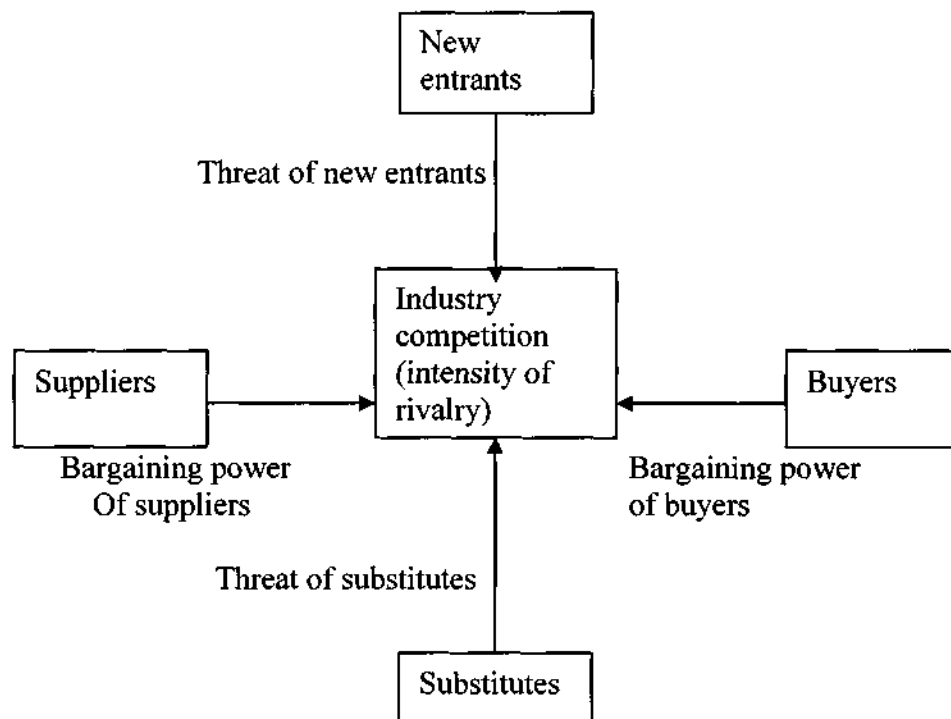
1.9.1 Literature review

In chapter two review of literature on the evaluation of the internal and external situation is thoroughly discussed using appropriate models. Then the appropriate strategy is selected using the gathered information as a ground for adopting the right strategic decision.

External situation

Porter's (1985) work directed at both strategic business planners and general manager, argues that many of strategic planning frameworks view. Competitions were perceived too narrowly and pessimistically because they were primarily based on projections of market share, and market growth. He explains that the economic and competitive forces in an industry segments are results of five basic forces (figure 1.1).

Figure 1-2: Porter's five forces model.

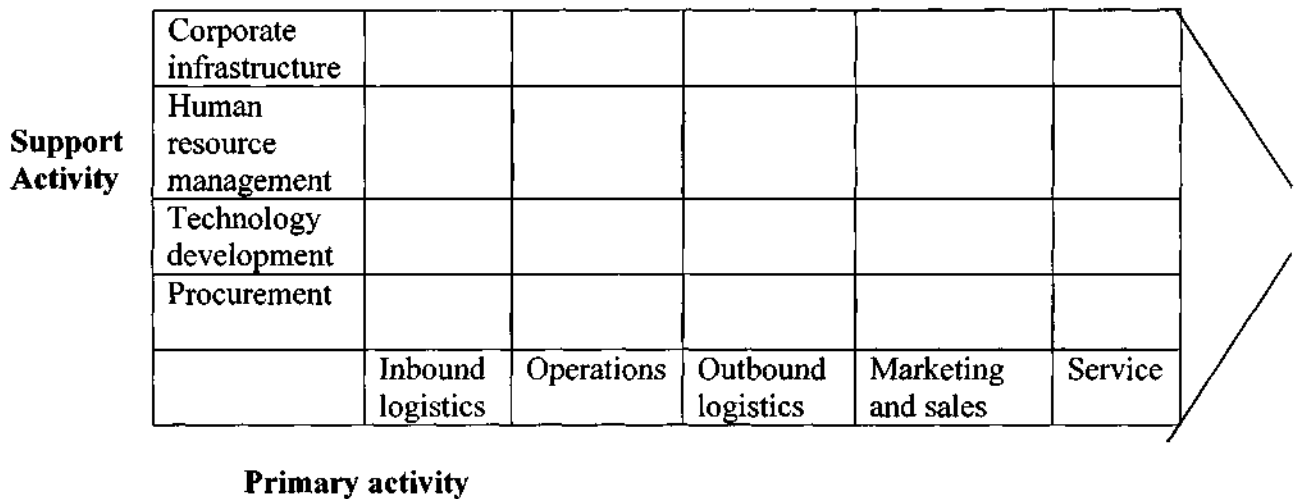


Source: Applegate, M., (1999), *Corporate Information System Management*, McGraw-Hill, Singapore (P. 64).

Internal situation

An effective way to search an opportunity in each and every activity of the company is through systematic analysis of value chain. The value chain model is used to indicate the series of interdependent activities that bring the product to the end user.

Figure 1-3: The Value chain model



Source:

Applegate, M., (1999), *Corporate Information System Management*, McGraw-Hill, Singapore (P. 72)

Generic strategy

Porter (1985) describes four generic strategies for achieving proprietary advantage within an industry: cost leadership, differentiation, focus, and differentiation focus strategies. Each generic strategy involves two key choices.

1. The competitive mechanism- a firm can lower its cost or differentiate its products; and
2. The competitive scope- a firm can target a broad or narrow market.

Figure1-4: Generic strategy related to competitive advantage and scope

		Competitive advantage	
		Lower cost	Differentiation
Competitive Scope	Broad target	Cost leadership Target	Differentiation
	Narrow Target	Cost focus	Differentiation Focus

Source:

- Applegate, M., (1999), *Corporate Information System Management*, McGraw-Hill, Singapore (P. 66).

1.9.2 Case study report

Details view of the case study method is provided here. The case study looks specifically to the Dahlak share company. Primary and some secondary data will be used to provide the necessary information for the study. The models (figures 1.2, 1.3, and 1.4) are also important in reporting the real situation relevant to the company.

1.9.3 Case analysis

The information in chapter three is evaluated against the value chain and Porter's Five Forces Models developed in chapter two. To analyze the gap between the best models, the theoretical part of the paper and the reality in Dahlak Share Company is critically analyzed.

1.9.4 Conclusion and Recommendation

This is the last part of the paper. The difference that is found in chapter four will need additional process to be completed. Conclusion and Recommendation are the two parts of this part. Things that are well with the organization are reinforced and the aspects of the company are needed to be accomplished are addressed.

1.10 Summary

Dahlak Share Company used to sell more than 80% of its products to Ethiopia. The loss of the entire Ethiopian market forced the company be underutilized. This situation demanded a thorough study to find a solution for the company to utilize all of its capacity so as to meet its objectives. Based on the view of various strategists in the literature review, the company situation is put structurally and analyzed against the referred theory. At the end appropriate strategic activities is recommended.

In the proceeding chapter a collection of views from various scholars in formulation the strategy follows.

Chapter two: Strategy Formulation Process

2.1 Introduction

History reveals that human beings strive to find the right way, system, style, principle, culture and so on. Every knowledge and skill on this earth is the accumulated wisdom and experience of yesterday. Therefore it should be kept in mind that nothing can be gained freely. Especially in the business world the competitive environment is making life very complex for any company to maintain itself. It is not a secret that many giant business enterprises failing to cope with the existing competitive situation have become extinct.

In most cases the management of the company was not aware as it was swallowed by more successful competitors or lost their value to the investors or found themselves with no cash on hand to finance the daily activity regardless of their other business success. Thus they were caught unawares because they were not equipped with the proper strategy to be able to stand in their own feet.

For this and other reasons a wise management must be equipped with enough knowledge that could make it challenge any kind of adversity. This is needed to make sure whether the company is following the best strategy relevant to its situation. If the management takes note of this fact to guarantee the smooth continuity of the business and to please its stakeholders by making them strategy minded, any attempt it takes will enhance the value of the company.

In view of this, attempts will be made to discuss strategy including the main factors that affect to formulate strategy, and how it is formulated.

2.2 Strategy

Strategic management process is a combination of competitive moves and business approaches that managers employ to satisfy customers, compete successfully, and finally achieve organizational objectives (Thompson & Strickland, 2003). In today's highly

competitive business environment, budget oriented planning and forecast-based planning methods are insufficient for a large organization to survive and prosper. The firm must engage in a strategic planning that clearly defines objectives and assess both the internal and external situation to formulate strategy, implement it, evaluate the progress, and make necessary adjustment necessary to stay in track.

A strategy is a long-term direction and scope of an organization that procures advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholders' expectations (Internet 1). In other words strategy is about:

- Where is the business trying to get to in the long term? (Direction).
- Which market should a business compete in and what kind of activities are involved in such a market? (Market's scope).
- How can business perform better in those markets? (Advantage).
- What resources (skills, assets, finance, relationships, technical competences, facilities) are required to compete? (Resources).
- What external, environmental factors affect the business ability to compete? (Environment).
- What are the values and expectations of those with power in and around the business? (Stakeholders).

Drawing a careful reasoned conclusion about what a company's long term direction should push managers to take a hard look at the company's internal and external environment and form a clear sense of weather/ how its present business needs will change over the next five years and beyond (Thompson & Strickland, 2003). In order to develop a strategy, the senior management of the organization must firstly identify the organization's vision, current mission, objectives and strategies within the organization to ensure that they are clearly defined and are continually being renewed.

2.2.1 Vision

Thompson & Strickland (2003) argue, while there is a mission statement that speaks to what a company is doing today, a strategic vision generally has much greater direction-setting and strategy-making value. There is an ever present managerial imperative to look beyond today and think strategically about the impact of the new horizon, how customer needs and expectations are changing, what it will take to overtake or outrun competitors, which promising market opportunities ought to be aggressively pursued and all the other internal and external factors that impels the company to prepare for the future.

According to Thompson & Strickland (2003), managers have three discernible tasks in formulating strategic vision and in making it a useful direction-setting tool.

1. Coming up with a mission statement that defines what a business company is doing presently in and conveys the essence.
2. Using the mission statement as a basis for deciding for long-term course, making choices about “where we are going and charting a strategic path for the company to pursue.”
3. Communicating the strategic vision in clear, and exact term arouse organizational commitment.

2.2.2 Mission

According to Pears & Robinson (1997), the mission statement of an organization defines its purpose and tells exactly in what business organization is at the present moment. Defining organization's mission urges the senior management of the organization to identify the scope of its products and services.

Achievement of mission drives and mobilizes workers and the business itself, and gives high quality service to the market. A mission describes the organization's basic function in society, in terms of the products and services it offers to its customers (Internet1).

A strategically revealing mission statement incorporates three elements (Thompson & Strickland, 2003):

- Customer needs or what is being satisfied.
- Customer groups or who is being satisfied.
- The company's activities, technologies and competences, or how the enterprise goes about creating and delivering value to customers and satisfying their needs.

According to its vision and mission a company can have specific strategic objectives.

2.2.3 Strategic objectives

Pearce and Robinson (1997) stated that the results that an organization seeks over specified period of time are its objectives. Objectives are needed for each key results managers deem important to success. Thompson & Strickland (2003) argue that setting objectives converts the strategic vision into specific performance targets. Objectives represent a managerial commitment in achieving specific outcomes and results. Unless an organization's long-term direction is translated into specific performance targets and managers are pressured to show progress in reaching those targets, vision and mission statements are likely to end up as nice words, window dressing and unrealized dreams.

Two types of key result areas stand out: those related to financial performance and those related to strategic performance. Such objectives typically involve some or all of the following areas: profitability, return on investment, competitive position, technological leadership, productivity, employee relations, public responsibility and employee development.

According to Thompson & Strickland (2003), at minimum, a company's objectives must aim high enough to generate the resources to execute the chosen strategy proficiently. But an "enough-to-get-by" mentality is not appropriate in objective setting. Objectives need to be set high enough to generate period-to-period results that will not only please share holders and the Wall Street but also compare favorably with competitors performance.

Vision, mission, and strategic objectives are important parts of the strategy package. However, it is useless if these activities are done in negligence of affecting factors. Strategic analysis protects the senior managers from drafting unrealistic strategy.

2.3 Strategic analysis

The success of every organization depends on understanding the environment in which the organization operates. Once the vision, mission, and objectives are clarified, the organization can look outside the organization to ensure that its strategy articulates with the overriding environment.

2.3.1 Macro Environmental analysis (PEST)

An analysis of the environment is important because it increases the quality of the strategic decision making by considering a range of the relevant features well before the need of making an inevitable decision. The senior management of every organization has to analyze the environment in which their company operates to discover the nature of country policies, government regulation, and the nature of the economy before outlining any particular strategy.

The organization identifies the threats and opportunities facing it and those factors that might assist in achieving objectives and those that might act as a barrier. Then the strategy will be directed at exploiting the environmental opportunity and blocking environmental threats in a way that is consistent with internal capabilities.

2.3.1.1 PEST analysis

PEST stands for the political, economic, social, and technological issues that could affect the strategic environment of a business. These issues are explained below as they indicate important environmental influences for a business under each heading.

- **Political**

The direction and stability of political factor is a major consideration for managers on formulating company strategy. Political factors define legal and regulatory parameters within which firms must operate. Political constraints are placed on firms including fair-trade decision, antitrust laws, tax programs, minimum wage legislations, pollution and pricing policies, administrative jawboning and many other actions aimed at protecting employees, consumers, the general public and the environment. Since such laws and regulations are commonly restrictive, they tend to reduce the potential profit of firms. However, some political actions are designed to benefit and protect firms. Such actions include patent laws, government subsidies, and product research grants (Pearce and Robinson, 1997).

- **Economic factors**

Economic factor concern the nature and direction of the economy in which a firm operates. Because consumption patterns are affected by the relative affluence of various market segments in its strategic planning, Schiller (2000), each firm must consider economic trends in the segments that affect its industry. On both national and international level of credit, disposable income, and the propensity of people to spend, prime inflation rates, interest rates, trend in growth of the gross national product are other economic factors it must consider (Pearce and Robinson, 1997).

- **Social factor**

The social factors that affect a firm involves beliefs, values, attitudes, opinions, and life styles of persons in the firm's external environment, as stemming from cultural, ecological, demographic, religious, educational, and ethnic conditioning. As social attitudes change, so too does the demand for various types of products. Like other sources in the remote external environment, social forces are dynamic with constant change resulting from the efforts of individual to satisfy their desires and needs by controlling and adapting to environmental factors (Pearce and Robinson 1997).

One of the most profound social changes in recent years has been the entry of large numbers of women into the labor market. This has not only affected the hiring and compensation policies and the resource capabilities of their employees. It also has created the demand for a range of products necessitated by their absence from home.

- **Technological factor**

To avoid obsolescence and promote innovation, a firm must be aware of technological changes that might influence its industry. Creative technological adoptions can suggest possibilities for new products, for improvements in existing products, or in manufacturing and marketing techniques.

A technical breakthrough can have a sudden and dramatic effect on a firm's environment. It may spawn sophisticated new markets and products or significantly shorten the anticipated life of a manufacturing facility. Thus all firm; and most particularly those in turbulent growth industries, must strive for an understanding both of the existing technological advances and the probable future advances that can affect their products and services (Pearce and Robinson, 1997).

In addition to the political, economic and social factors, the stakeholders of the company have also strong influence over its strategy. Thorough microenvironment (industry) analysis is wise suggestion of most strategists.

2.3.2 Micro environmental analysis

It is very important to know the nature of the competition in the industry in which the company is operating, and how strong each of the competitive force is. Managers cannot craft a successful strategy without in-depth understanding of the industry's competitive character. According to (David 2001), competitive pressures in various industries are never the same. However, the competitive process works similarly enough to use common analytical tools in measuring the nature and intensity of competitive forces.

In the tradition of economic model, perfect competition among rival firms drives profits to zero. But where competition is not perfect, firms are not unsophisticated passive price takers; rather firms strive for competitive advantage for rivals. The intensity of rivalry among firms varies across industries, and strategic analysis is interested in these differences.

An industry is a group of firms that market products, which are close substitutes for each other (Internet 2). Some industries are more profitable than others. Why? The answer lies in understanding the dynamics of competitive structure in an industry.

The most influential analytical model for assessing the nature of competition in an industry is Michael Porter's Five Forces Model. According to Porter (1985), the current and future competitive position of any organization is the net force of five aggregated constraints. Porter (1985) explains that there are five forces that determine an industry's attractiveness and long-term profitability. These five "competitive forces" are:

- The threat of entry of new competitors (new entrants).
- The threat of substitutes.
- The bargaining power of buyers.
- The bargaining power of supplies.
- The degree of rivalry between existing competitors.

• **Threat of new entrants**

Porter's (1985) lesson on competitive pressures tells us that new market entrants bring forth with them new production capabilities and substantial resources with the desire to establish a secure place in the market. New entrants to an industry can raise the level of competition, thereby reducing its attractiveness of the already present products.

The threat of new entrants largely depends on barriers to entry. High entry barriers exist in some industries (e.g. shipbuilding) whereas other industries are very easy to enter into (e.g. estate agency, restaurants) Thompson and Strickland (2003).

As explained in Schiller (2000), companies benefiting from the economies of scale produce their products at lower cost than the new entrants. This weakens the competitiveness of new entrants. It is not easy to join or leave a business that needs huge capital investment. As customers can easily change their suppliers, new entrants can easily get enough customers for their products. Another barrier to entry is the control of distribution channel. Backward and forward linkages also hinder new entrants by avoiding access to main suppliers and major customers.

- **Threat of substitute products**

The presence of substitute products can lower industry attractiveness and profitability because they limit price levels. This gives opportunity to the customers to compare quality, features, aesthetics as well as price.

The threat of substitute products is higher as the buyers are willing to substitute products from various brands. Companies also have greater threat of substitutes when their products are not differentiated from others. Another factor that determines the threat of substitutes is the switching cost. When the customers are easily able to buy other products, the competition from substitutes is severe. (Internet 2)

- **Bargaining power of suppliers**

Suppliers are businesses that supply materials & other products into the industry.

The cost of items bought from suppliers (e.g. raw materials, components) can impact on a company's profitability. Whether the supplier-seller collaboration represents weak or strong competitive forces depends on whether the suppliers can forge a sufficient bargaining power to influence the terms and conditions of the business. Effect value and supply chain partnership on the part of the individual or any industry rivals can become a competitive disadvantage, for other competitors (Thompson & Strickland 2003).

If suppliers have high bargaining power over a company, then in theory the company's industry is less attractive.

- **Bargaining power of buyers**

Buyers are the people/ organizations that create demand in to the industry. According to Thompson & Strickland (2003), whether buyer- seller relationships represents a weak or a strong competitive force in the industry depends on how powerfully the buyers are influencing the terms and conditions of a business, and the extent of competitive importance of buyer-seller strategic collaboration in the industry.

According to (Internet 2), the bargaining power of buyers is greater when there are few dominant buyers; products are standardized; buyers threaten to integrate backward into the industry; suppliers do not threaten to integrate forward into the buyer's industry; or the industry is not a key supplying group for buyers.

Partnership between buyers and sellers is increasingly becoming inevitable of the competitive perception in world-class-business to-business collaborations more than in the business- to- consumer arena and this arrangement have been forged to build win-win relationships enhancing mutual trust and benefits. It becomes a great challenge to attack businesses with this type of relationships; therefore, it is quite significant for today's managers to understand this type of industry players and the nature of their competence.

- **Intensity of rivalry**

According to Thompson & Strickland (2003), Lynch (2000), the strongest of the five competitive forces is usually the jockeying for position and buyer fervor goes on among rival sellers of a product or service. Irrespective of whether the rivalry is hot or warm the company has to craft a successful strategy for competing ideally and producing a sustainable competitive edge and also strengthening the organization's position with potential buyers.

According to (Internet 2), rivalry is more intense where there are many small or equal sized competitors. Rivalry is less when the industry has a clear market leader. Industries with high fixed costs encourage competitors to fill unused capacity by price-cutting.

Industries where products are commodities (e.g. steel, coal) have great rivalry; industries where competitors can differentiate their products have less rivalry. Rivalry is also reduced where buyers have a high switching cost where there is a significant association with the decision to buy a product from an alternative supplier. When competitors are pursuing aggressive growth strategies, rivalry is more intense; when competitors are “milking” profits in a mature industry, the degree of rivalry is less. When exit barrier is very high (e.g. cost of closing down factories) the competitors tend to exhibit great rivalry.

Corporate managers also need to observe the fact that in business there are key factors that are building blocks for the success of the company.

2.3.3 Key success factors

“An industry key success factors are those things that most affect industry members’ ability to prosper in the market place-the particular strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that spell the difference between profit and loss, and ultimately, between competitive success or failure” Thompson & Strickland (2003). The senior managers of the organization should study the moves of their competitors with the hope of trying what will be their next move in the industry, knowing the key success factors is too important move to leave out.

The key success factors according to Jauch & Glueck (1988) are the things that mostly affect the industry players’ abilities to achieve their objectives in the market. The key success factors are so important that no company can ever succeed without establishing these pressing needs. These may be the elements of the strategy the company is employing (product attributes, the resource advantage, competencies, the competitive capabilities, and business outcomes) that provide the difference between company profits and losses, and finally the competitive success or failures.

According to Thompson & Strickland (2003) the key success factors can commonly be grouped as follows:

- Technology related activities such as scientific research expertise, technical capability to make innovation, product innovation, etc.
- Manufacturing related such as low cost of production efficiency, high labor productivity, high utilization of fixed assets.
- Distribution related such as strong network of wholesale dealers and distributors.
- Marketing related such as fast, accurate technical assistance, courteous customer service etc.
- Skills related such as superior work force talent, strong quality know-how, and expertise in new technology.

Thompson and Strickland (2003) stated that key success factors vary from industry to industry and even from time to time with in the same industry the driving forces and competitive conditions change.

As the industry and competitive analysis strategically weigh the organizations external circumstances, it is incumbent that the internal condition of the organization be explored and compared against relative cost position, resource capabilities, and competitive strength against the rival companies (Koch 1995).

2.4. Company resources and capabilities

According to the same strategy writers, a company situation analysis prepares ground work for matching the company both to its external market circumstances and to its internal resources and competitive capabilities primarily asking questions like, how well is the organization's current strategy working? What are the company's resource strength and weaknesses, external threats and opportunities? Are the company's prices and costs competitive? How strong is the company competitive position relative to its rivals?

To address these questions Thompson & Strickland (2003) supported by Pearce & Robinson (1997) implore managers to exploit the following techniques including SWOT analysis, value chain analysis, and life cycle analysis.

2.4.1 Life cycle analysis

Life cycle analysis is one of the models that aim to relate the competitive position of an organization to the maturity of the industry or its products. Four stages in life cycle of any product or industry can be identified in figure 2.1. When the products are the focus then the stages are:

- Introduction: the activity or product is new and there is an initial stage of experimentation and gradual acceptance.
 - Growth: there is a rapid growth of the activity or rapid increase on sales.
 - Maturity: the activity of sales remains high but there is no further activity or sales.
 - Decline: the competition, product displacement, or other forces cause decline in the activity or sales.
-
- The stage in cycle will affect the organization's environment and hence the strategies in a number of ways. According to Johnson & Scholes (2002) the growth phase of business or industry is the market captures stage since any ground gained during this stage is of enduring benefit. It is relatively easier to gain market share when the total market is growing than when this market is static or in decline. The strategies during this stage will revolve around increasing the volume at the desired rate. As the industry reaches maturity, a more formal approach of monitoring costs will emerge. During this stage increased growth is usually only achieved by niche marketing. As the cycle moves towards the decline stage the strategies will be those of removal displacement or divestment.

Figure 2-1: Life cycle analyses.

	Introduction	Growth	Maturity	Decline
User/buyer	Few trial of early adopter	Growing adopters	Saturation of users repeated user reliance	Drop of in use
Competitors condition	Few competitors	Entry of competitors attempt to achieve trial Fight for share Undifferentiated products/services	Fight to maintain share in gaining/taking Share Emphasis efficiency/ low cost	Exist of some competitors Selective distribution
	Demand unknown	Demand>supply	Demand= supply	Demand<supply

Tewelde, S. (2002), *working capital management, the case of Government owned, and privatized manufacturing Firm's in Eritrea*, Groningen. (P. 278)

The important point about this model is that if one can identify the position of given organization on the model, then he/she can have access to predestined framework for the future activity. A product in an industry can be positioned on this model by assessing the relationship between supply and demand.

2.4.2 Value chain

To understand the value creation in the firms one must first understand the distinction between the types of the industries. According to Stable and fjelstad (1998), we have long linked intensive and mediating industries. The value chain, the value shop, and the value network are three distinct generic value configuration models required to understand and analyze firm level value creation logic across a broad range of industries and firms. While the long linked value by resolving unique customer problems, and mediating technology, delivers value by enabling direct and indirect exchanges between customers. With the identification of the alternative value creation technologies, value chain analysis is both sharpened and generalized into the value configuration analysis approach and to diagnosis of competitive advantage.

Understanding how firms differ is central challenge for both the theory and the practice of strategic management. In dynamic economic and institutional settings, changes in the dominant competitive logic of firms are of particular interest (Stable and Fjelstad 1998). Hence a complete but parsimonious typology of the alternative forms of value creation is a prerequisite for expressing and exploring how firms differ in a competitive sense.

Porter's (1985) value chain framework is presently the accepted language for both representing and analyzing the logic of firm- level value creation. Although Porter's (1985) industrial organization (five forces) competitive analysis framework is challenged in resource-based critiques, the value chain maintains its central role as a framework for the analysis of the firm-level competitive strengths and weaknesses.

Value chain analysis is a method for decomposing the firm into strategically important activities and understanding their impact on cost and value. According to Porter (1985), the overall value creation logic of the value chain with its generic categories of activities is valid in all industries. What activities are vital to a given firm's competitive advantage, however, is seen as industry dependent.

The value chain is one of three generic value configurations. Based on Stable and Fjelstad (1998), typology of long linked, intensive and mediating technologies. The value chain models fits to evaluate activities of long linked technology, while the value shop models firms where value is created by mobilizing resources and activities to resolve a particular customer problem, and the value network models firms create value by facilitating a network relationship between their customers using a mediating technology. Table-2.1 summarizes the main difference for the three-value configurations.

Table 2.1 Value Configurations

	Chain	Shop	Network
Value creation logic	Transformation of inputs in to products	(Re)solving customer problem	Linking customers
Primary technology	Long-linked	Intensive	Mediating
Primary activity categories	-Inbound logistics -Operations -Outbound logistics -Marketing -Service	-Problem finding and acquisition -Problem-solving -Choice -Execution -Control/evaluation	-Network promotion and contrast management -Service provisioning -Infrastructure -Operation
Main interactivity relationship logic	Sequential	Cyclical, spiraling	Simultaneous, parallel
Primary activity interdependence	Pooled	-Pooled -Sequential -Reciprocal	-Pooled -Sequential -Reciprocal
Key cost drivers	-Scale -Capacity utilization		-Scale -Capacity utilization
Key value drivers		Reputation	-Scale -Capacity utilization
Business value system structure	Interlinked chains	Referred shops	Layered and interconnected networks

Source:

Stabell, C. & Fjeldstad, O., (1998), *Strategic management* journal, Boston (p.42)

Based on table 2.1 in attempting to relate the notion of different value configuration models in relation to this case, Dahlak share Company, various dimensions can be assessed. Major raw materials like leather and soles are transformed to finished products (the shoe) for the target market.

Footwear industry is long-linked firms with each specific operation that adds value to the product. Suppliers, producers, and distributors are different with distinctive functions. The primary activities: inbound logistics, operations; out bounding logistics, marketing, and service occur in the industry. The activity is sequential and interdependent on each activity to the needed output. The final product is the value contribution of all firms for each activity. Based on the points elaborated above, the most appropriate model to analyze the value creation in the Dahlak Share Company is Porter's value chain model. It is explained how porter's value chain model can help to analyze and create value in each activity.

2.4.2.1 Value chain analysis

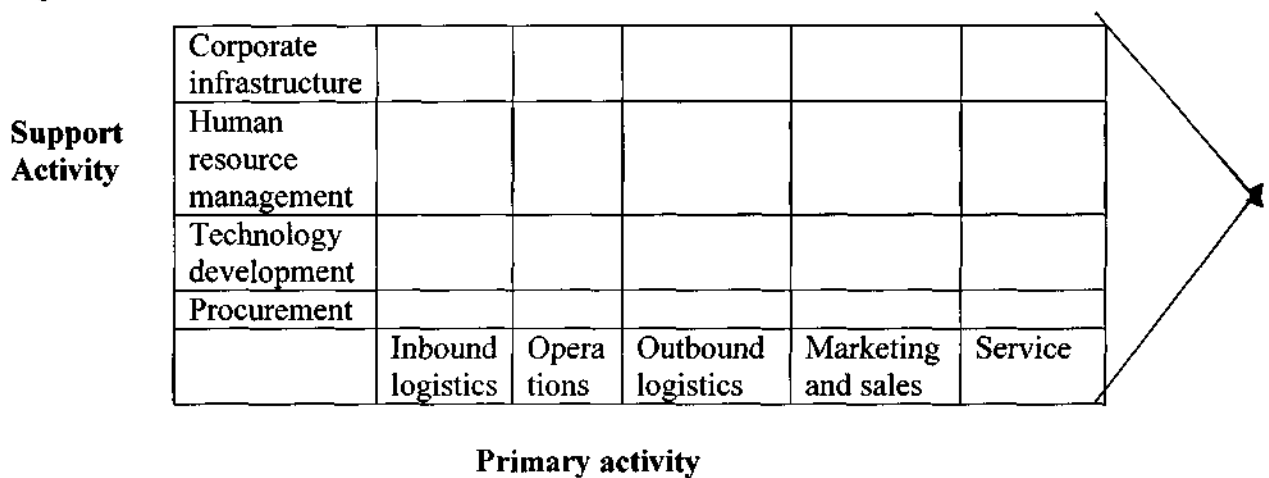
Porter (1985) is the key reference on value chain and value configuration analysis for competitive advantage. The value chain model is long-linked technology (Thompson and Strickland 2003) where value is created by transforming imputes into products. The product is the medium for transforming value between the firm and its customers. Raw materials and intermediate products are typically transported to the production facilities that transform the inputs into products, which are then shipped to customers. Marketing serves two complementary purposes. The first is the development and refinement of the chain by providing product specifications and volume estimates. The second is stimulating the required level of demand for the chain's output to ensure stable operation and capacity utilization. Post-purchase service is performed to ensure proper use of the product by the customer, to remedy defects, or to increase the lifespan of the product.

2.4.2.2 Representation of value creation

The value chain analysis frame work postulates that competitive advantage is understood by disaggregating the value creation process of the firms into discrete activities that contribute to the firm's relative cost positioning and creating a basis for differentiation. The basic assumption underlying the desegregation is that activities are building blocks by which a firm creates a product that is valuable to its customers. Different activities have different economics and contribute differently to the valuable characteristics of the product.

As indicated in figure 2.2, the value chain configuration is two-level generic taxonomy of value creation activities. Primary activities are directly involved in creating and bringing value to the customer, whereas support activities enable and improve the performance of the primary activities. The 'support' level underlines that support activities only affect the value delivered by top customers to the extent that they affect the performance of primary activities. Primary value chain activities deal with physical products. (Porter, 1985)

Figure 2.2 The Value Chain Model



Source:

Applegate, M., (1999), *Corporate Information System Management*, McGraw-Hill, Singapore. (P. 72)

2.4.2.3 Categorizing activities

According to Ambrosini (1998), subdivision of chains is helpful, but only if it separates activities, which have different economics, high potential impact on differentiation, or represent a significant or growing proportion of cost. Generally the activities of the organization are categorized in two major groups, primary and support activities.

- **Primary activities**

The five generic primary activities categories of the value chain are (Porter, 1985):

- ***Inbound logistics.*** Activities associated with receiving, storing and disseminating inputs to the product.
- ***Operations.*** Activities associated with transforming inputs into the final product form.
- ***Outbound logistics.*** Activities associated with collecting, storing and physically distributing to the buyers.
- ***Marketing and sales.*** Activities associated with providing means by which buyers can purchase the product and inducing them to do so.
- ***Service.*** Activities associated with providing service to enhance or maintain the value of the product.

The primary activity categories (particularly the inbound logistics-operation-outbound logistics sequence) are well suited to characterize the main value creation process of a generic manufacturing company. Casual empiricism suggests that manufacturing or process industry firms frequently use the value chain activity category vocabulary when defining and describing their operations. Marketing is included as primary activity category as these activities inform the customer of the relevant product characteristics and insure products availability on the market. Similarly, the inclusions of service as the primary activity category follows from the fact that service can be critical for the value realized by the customer.

The set of generic activity categories is a template for identifying critical value activities that provide a basis for understanding and developing competitive advantage from the perspective of the firm as a whole. The value chain configuration is not meant to model the actual flow of the production. The value chain activity focus can be used for identification of strategic improvement needs or opportunities, but is not necessarily useful for specifying a reengineering of business processes (Stable and Fjelstad, 1998).

A firm's value chain is embedded in a system of interlinked value chains (Porter 1985). This value system includes the value chain of suppliers of raw materials and components. It also might include the value chain of distinct distribution channels before the product becomes part of the buyer's value chain. The overall system is thus a chain of sequentially interlinked primary activity chains that gradually transform raw materials into the finished product valued by the buyer.

- **Support activities**

The generic support activity (Porter 1985) categories of the value chain are:

- **Procurement.** Activities performed in the purchasing of inputs used in the value chain.
- **Technology development.** Activities that can broadly be grouped into efforts to improve product and process.
- **Human resources management.** Activities of recruiting, hiring, training, developing, and compensating personnel.
- **Firm infrastructure.** Activities of generic management, planning, finance, accounting, legal, government affairs, and quality management.

The categories of support activities are not uniquely linked to the value creation logic of a long linked technology. The same categories of support activities should therefore be relevant to other primary value creation logics. Porter (1985) does not argue explicitly for his categories of support activities, and the taxonomy appears to follow pragmatically the traditional functional organization of the firm, where support categories cover those functions not included in the primary activity categories of the value chain configuration.

2.4.2.4 Diagnosis of competitive advantage

Allocating individual activities to generic categories is an analytical choice with strategic implication. The same applies to the choice of activities that are considered for explicit enumeration.

Value chain analysis is often limited and summarized by the identification and discussion of strengths and weaknesses in terms of critical value activities (Stable and Fjelstad, 1998). A more detailed first-order analysis assigns costs and assets to the value activities.

2.4.2.5 Strategic positioning

The purpose of value configuration analysis is diagnosis and improvement of competitive advantage. Competitive advantage is relative to existing and potential competitors, which are defined by product and market segment; and value activities in the business value system of interlinked firms (vertical integration). Strategic positioning for competitive advantage is therefore an issue of choosing position in terms of product scope, market scope, and business value system scope (Stable and Fjelstad, 1998).

The appropriate choice of position depends on the diversity of cost and value. For firms a long linked technology, relationship between scale, capacity utilization, market scope and uncertainty in input and output markets are the critical generic determinants of the appropriate strategic position. The drivers shape the business value system, the industry, and thereby also the competitive position. Competitive position will also be a function of where the industry lies in the product life cycle.

A position of competitive advantage cannot be chosen directly, but must rather be attained by appropriate actions in terms of scope and in terms of attempts to modify the drivers of cost and value.

Sustainable competitive advantage is determined by the nature of the source of competitive advantage. These are in part captured by uniqueness and non-immutability of the drivers of cost and value chain that underlay the position.

The logic of the value chain implies an analysis of competitive positioning based on variants of cost leadership. That is, the value chain framework has most to say about

how to achieve a cost leadership position. The overall flow logic of primary activities direct the attention only to those Buyer Purchasing Criteria associated with improving the flow of larger value system that includes buyers and suppliers.

2.4.3 SWOT analysis

SWOT analysis is a technique behind the principle that strategy-making thrust must aim at producing articulation between a company's resources capability and its external situation. Assessing the impact of environmental changes on the current strengths and weaknesses of an organization can help managers to understand the changing environment in such a way that it will allow them to identify opportunities, or to recognize threats which are especially important. Measuring an organization's strength and weaknesses and its external opportunities and threats, provides an intelligent view of whether a businesses position is essentially healthy or needs attention (Ambrosini 1998).

2.4.3.1 Strength

Strength is something an organization is good at doing or characteristics that give it enhanced competitiveness (Thompson & Strickland 2003). This can come in various forms, which may include an important unique skill, valuable physical asset, valuable human capital, intangible assets and competitive capabilities, putting the organization at the leading competitive edge.

2.4.3.2 Weaknesses

A weakness is something that a company does not have or which it does poorly. The internal weaknesses can mainly be associated with the insufficient skills or expertise. Consequently it is very important for organization management to take a strategic approach by observing the indicated requirements to smoothly derive the best strategy.

2.4.3.3 Opportunities

Market opportunity is one of the fundamental factors shaping the strategy of the company. Therefore companies have to scan the environment to look for opportunities

and match them against their resources because not every organization is equipped with adequate resources to pursue each opportunity that exists in the market. It makes sense to assess these before adopting a strategy to ensure that the strategy takes the opportunities to the advantage of the company (Thompson & Strickland 2003).

2.4.3.4 Threats

Certain factors pose threats to the company's profitability and its competitive wellbeing. These are economic factors, new market entrants, substitute materials and services. Some threats could come as political instability of the country in which the company is operating or plans to expand. Therefore it is quite essential that a company assess these factors before adopting any strategy.

Ambrosini (1998) used a matrix to identify strengths, weaknesses, opportunities, and threats and a scoring mechanism to provide clarity to the analysis and as a means of getting managers to assess:

- The environmental changes most critical.
- The internal strength that will remain as strengths or become weaknesses in a changing environment.
- The internal element that is most influenced by each external change.
- A positive (+) score denotes that a strength that a company possessed would help it to take advantage of, or counteract, a problem arising from an environment change or a weakness that would be offset by environmental change.
- A negative (-) score denotes that strength would be reduced by the environmental change or a weakness would prevent the organization from overcoming the problem associated with an environmental change or accentuated by the change.
- A zero (0) score indicates that current strength or weakness would not be affected by an environmental change.

2.5 Strategy and competitive choice

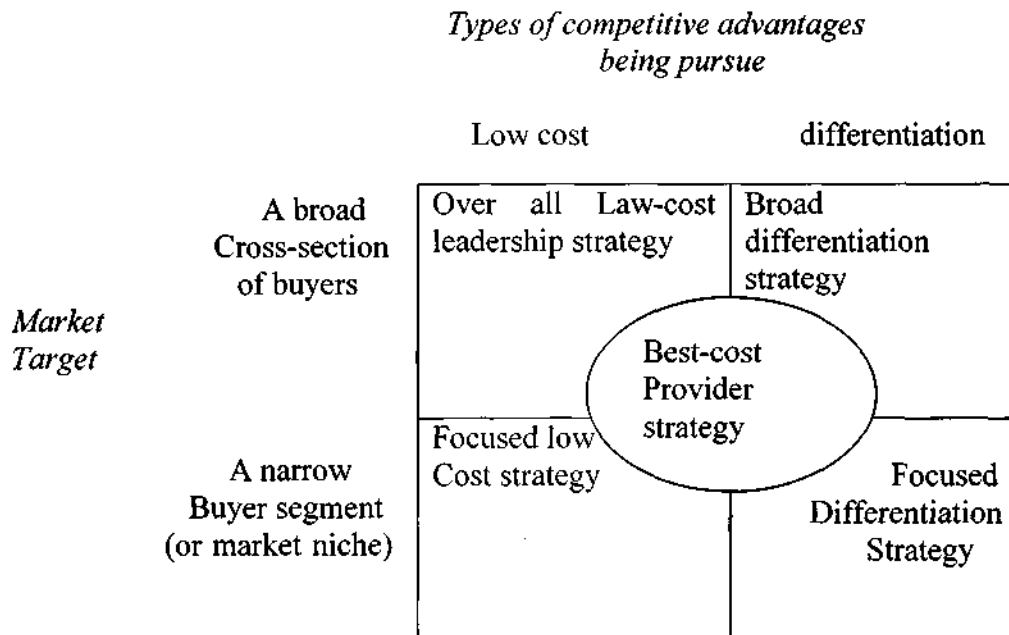
Winning business strategies are grounded in sustainable competitive advantage. A company has a competitive advantage whenever it has an edge over rivals in attracting customers and defending against competitive forces. There are many routes to competitive advantage, but the most basic is to provide buyers with what they perceive as superior value such as a good product at low price, a superior product that is worth paying more for, or a best-value offering that represents an attractive combination of price, features, quality, service and other attributes buyers find attractive (Thompson and Strickland 2003).

This part of the paper focuses on how a company achieves or defends competitive advantage through the strategy it employs. In many perspective approaches to a strategy development, it is usual to define the purpose of the organization and then develop a range of strategy options that might achieve the purpose. The objective of competitive strategy is to knock the socks of rival companies by doing a significantly better job of providing what buyers are looking for.

2.5.1 Competitive strategy

According to Thompson and Strickland (2003), there are five distinct competitive strategy approaches as indicated in figure 2.3.

Figure 2-2: Five competitive generic strategies



Source:

Thompson, A., and Strickland. A. (2003), *Advanced Strategic Management: concept and case*, 13th Edition, McGraw-Hill, Irwin (P.151)

2.5.1.1 Low cost provider strategy

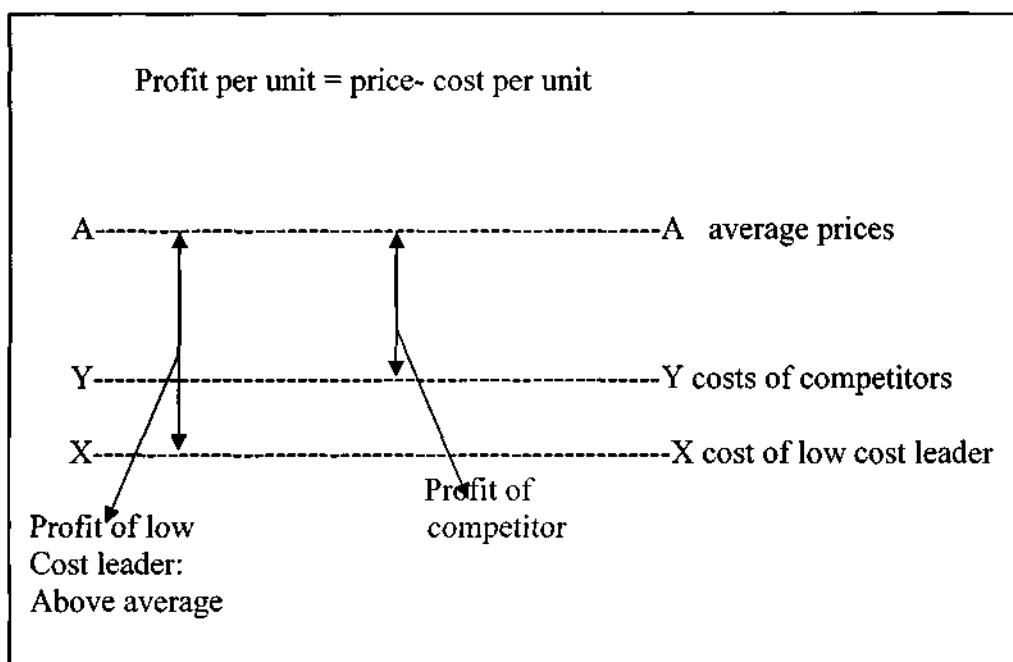
This is appealing to a broad spectrum of customers based on being the over all low-cost provider of a product or service. As Thompson & Strickland (2003), & Pearce & Robinson (2000) explained, striving to be overall low cost leadership is powerful competitive approach in markets with many price sensitive buyers. To achieve a cost advantage, a firm's cumulative cost across its value chain must be lower than competitors cost. To accomplish this, a firm must do better job than rivals by managing the factors that can drive down costs in each activity of the value chain, and revamp the value chain to bypass some cost producing activities altogether. In trying to keep costs below rivals, managers must take care to include features and services that buyers consider essential. A product that is too Spartan weakens rather than strengthens a firm's competitiveness.

Pearce and Robinson (2000), argue that business can have sustainable cost advantage when it possesses skills and resources that foster cost leadership and/or organizational requirements to support and sustain cost leadership activities. These skills and resources

are: sustained capital investment and access of capital; process engineering skills; intense supervision of labor or core technical operations; products or services designed for ease of a manufacturer delivery; low cost or distribution of system. Organizational requirements also include: tight cost control; frequent, detailed control reports; continuous improvement and benchmarking orientation; structured organization and responsibilities; and incentives based on meeting strict, usually quantitative targets.

The following figure 2.4 extracted from Lynch (2002), shows how low-cost leadership delivers above average profit.

Figure 2.3 above average profit from low cost leadership strategy



Source:

Lynch, R. (2000), *Corporate Strategy*, prentice Hall. London. (P.566)

Low-cost provider strategy will work best when the price competition among rivals is especially vigorous and the industry's product is essentially standardized or the commodity readily available from a host of sellers. It is also advisable to follow this strategy when there are a few ways to achieve product differentiation that have value to buyer. Most buyers utilize the product in the same ways. Moreover, as buyers incur low switching cost in changing from one seller to the other, and buyers become large in

number and have significant power to bargain down prices, a business is advised to revamp its production cost (Thompson and Strickland 2003).

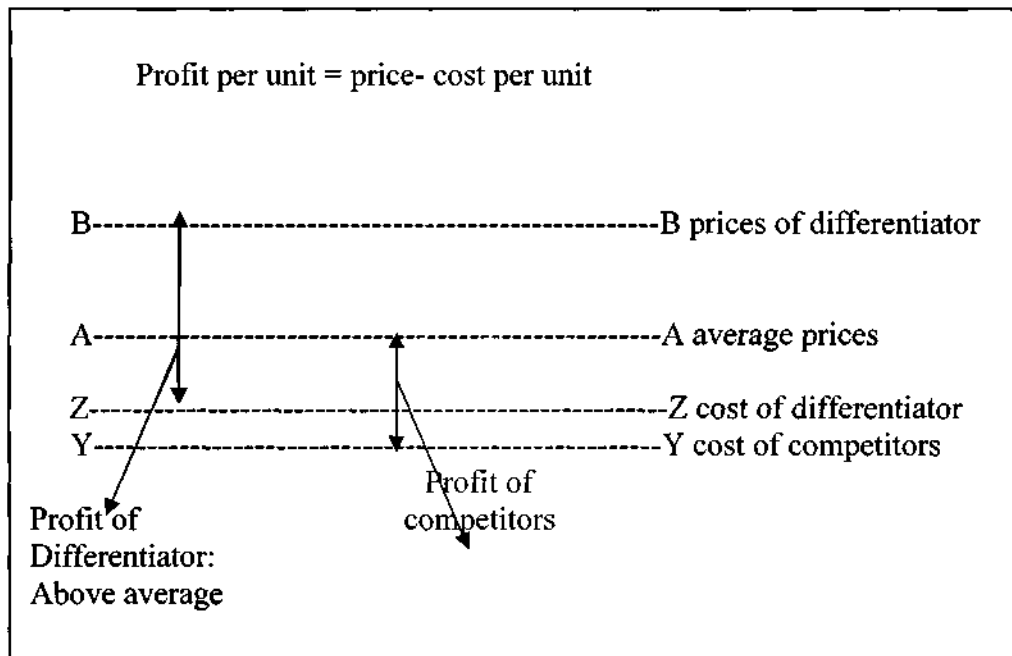
2.5.1.2 Differentiation strategy

According to Thompson & Strickland (2003), differentiation strategies are an attractive competitive advantage whenever buyer's needs and preferences are too diverse to be fully satisfied by a standardized point or by sellers in identical capabilities.

Pearce and Robinson (2000) indicate that a company can establish differentiation opportunities when it possesses skill and resources that foster differentiations and organizational requirements to support and sustain differentiation strategy. The required skills and resources are: strong marketing abilities; product engineering; creative talent and flair; strong capabilities in basic research; corporate reputation for quality or leadership; long tradition in an industry or unique combination of skills drawn from other businesses; strong corporation from other channels; strong cooperation from major suppliers. Organization requirements also include: strong coordination among functions in R&D; product development and marketing; subjective measurement and incentives instead of quantitative measurement; high-skilled labor; scientists and creative people; tradition of closeness to key customers; personal skills in sales; operations, technical, and marketing.

Figure 2-4 extracted from Lynch (2002), shows how differentiation delivers above average profit.

Figure 2-4: above average profit from differentiation strategy



Source: Lynch, R. (2000), *Corporate Strategy*, prentice Hall. London. (P.567)

Successful differentiation allows a firm to command a premium price for its product, increase sales, and/or gain buyer locality to its brand. Differentiation strategy works best when there are many ways to differentiate the product; the buyers' needs and uses are diverse; few rival firms are following a similar differentiation approach; or technical change and product innovation are fast-paced and competition revolves around rapidly evolving product features (Thompson & Strickland 2003).

2.5.1.3 Focused strategy (niche strategy)

Sometimes, neither low-cost strategy nor differentiation is possible for an organization across the broad range of the market. Achieving low-cost leadership may require substantial funds that are not available. The costs of differentiation involve quality. It may not be credible to offer high-quality and cheap products under the same broad name. For this reason it may be better to adopt a focused strategy.

According to Thompson and Strickland (2003), the aim of the focused strategy is to do better job of serving buyers in the target market niche than rival competitors. Lynch (2002) also suggests that a focuser's basis for competitive advantage is either lower costs than competitors in serving the market niche or an ability to offer niche members something they perceive is better suited to their own unique tastes (preferences). As it is observed from the perspective of the customer, a focused strategy based on the cost depends on there being buyer segments whose requirements are less costly to satisfy compared to the rest of the market. A focused strategy based on differentiation depends on there being a buyer segment that is looking for special product attributes or seller capabilities.

Focused strategy based on low-cost or differentiation becomes increasingly attractive, as more of the following conditions are met (Thompson and Strickland 2003):

- The target market niche is big enough to be profitable and offers good growth potential.
- Industry leaders do not see that their presence in the niche is crucial to their own success- a condition that reduces rivalry from major competitors.
- It is costly or difficult for multi-segment competitors to put capabilities in place to meet the specialized needs of target market niche and, at the same time to satisfy the expectations of their mainstream customers.
- The industry has many niches and segments, thereby allowing the focuser to pick a competitively attractive niche suited to its resource's strengths and capabilities.
- Few, if any, rivals are attempting against challengers based on the capabilities and resources they have to serve the targeted niche and the customer goodwill they may have built up.

2.5.1.4 Best cost provider strategy

Best-cost provider strategies aim at giving more value for money. To become best cost provider a company must have the resource and capabilities to achieve good-to-excellent quality at a lower cost than rivals, incorporate appealing features at a lower cost than

rivals, match product performance at a lower cost than rivals, or provide good-to-excellent customer service at the lower cost than rivals.

As figure 2.3 indicates, best-cost provider strategy takes out a middle ground between pursuing a low-cost advantage and differentiation advantage, and between appealing to the broad market as a whole and narrow market niche. In markets where buyers diversity makes product differentiation the norm and where many buyers are also sensitive to price and value, best-cost provider strategy can be more advantageous than either a pure low-cost strategy or pure differentiation strategy keyed to product superiority.

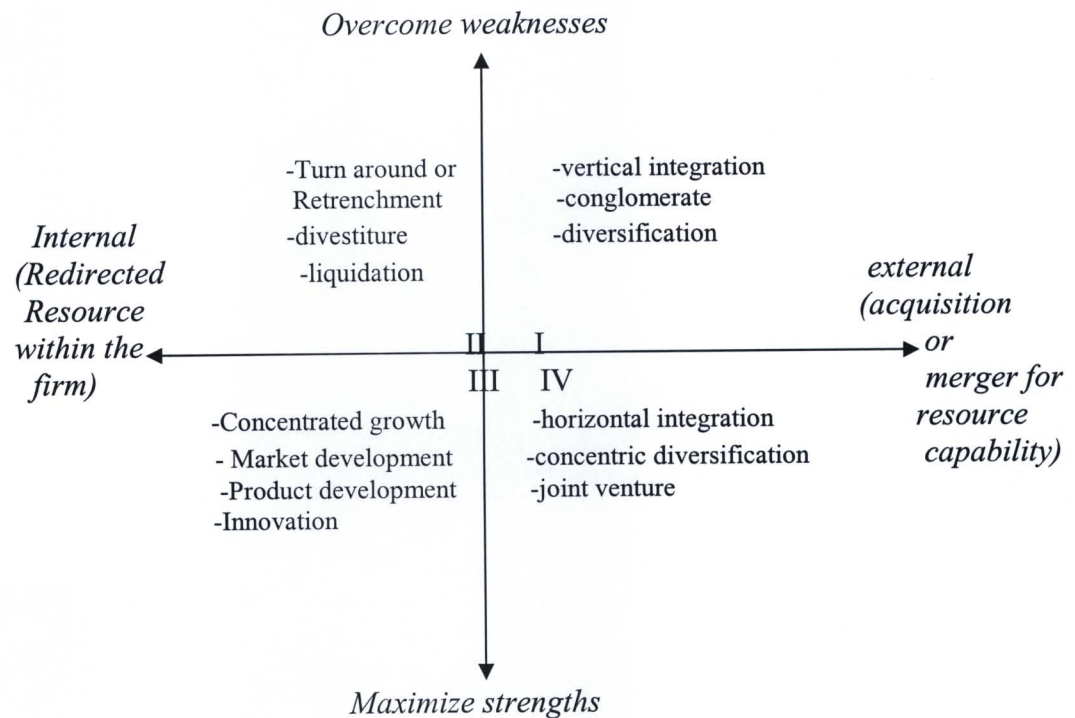
Pearce and Robinson (1997) stated, the analysis and choice of strategy involves three basic conditions. First, strategists must recognize that their overall choice revolves around the five sources of competitive advantage that require total, consistent commitment. Second, strategists must carefully weigh the skills, resources, organizational requirements, and risks associated with each source of competitive advantage. Finally, strategists must consider the unique influence that the generic industry environment most similar to the firm's situation will have on the set of value chain activities they chose in order to build competitive advantage.

2.5.2 Grand strategy

What grand strategies are best suited to continue to build values? Under what circumstances should they choose an expanded focus (diversification, vertical integration); steady continued focus (concentration or product development); or a narrow focus (turn around or divestiture)? Pearce and Robinson (1997) examine this in two ways to analyze a company's product situation and to choose among the identified grand strategies in the figures.

1. As the matrix shown in figure 2.6, the basic idea for underlying the matrix is that two variables are of central concern in the selection process (1) the principal purpose of the grand strategy and (2) the choice of an internal or external emphasis for growth or profitability.

Figure 2-5: grand strategy matrix based on the company capacity



Source:

Pears & Robinson (1997), *Formulation, Implementation, & Control of Competitive Strategy*, 6th edition, McGraw-Hill, Irwin. (P.265)

A firm in quadrant I view itself as over-committed to a particular with limited growth opportunities or high risks. The firm may do vertical integration to reduce the risk by reducing uncertainty about inputs or access to customers. Another is conglomerate diversification, which provides a profitable investment alternative diverting management attention from the original business.

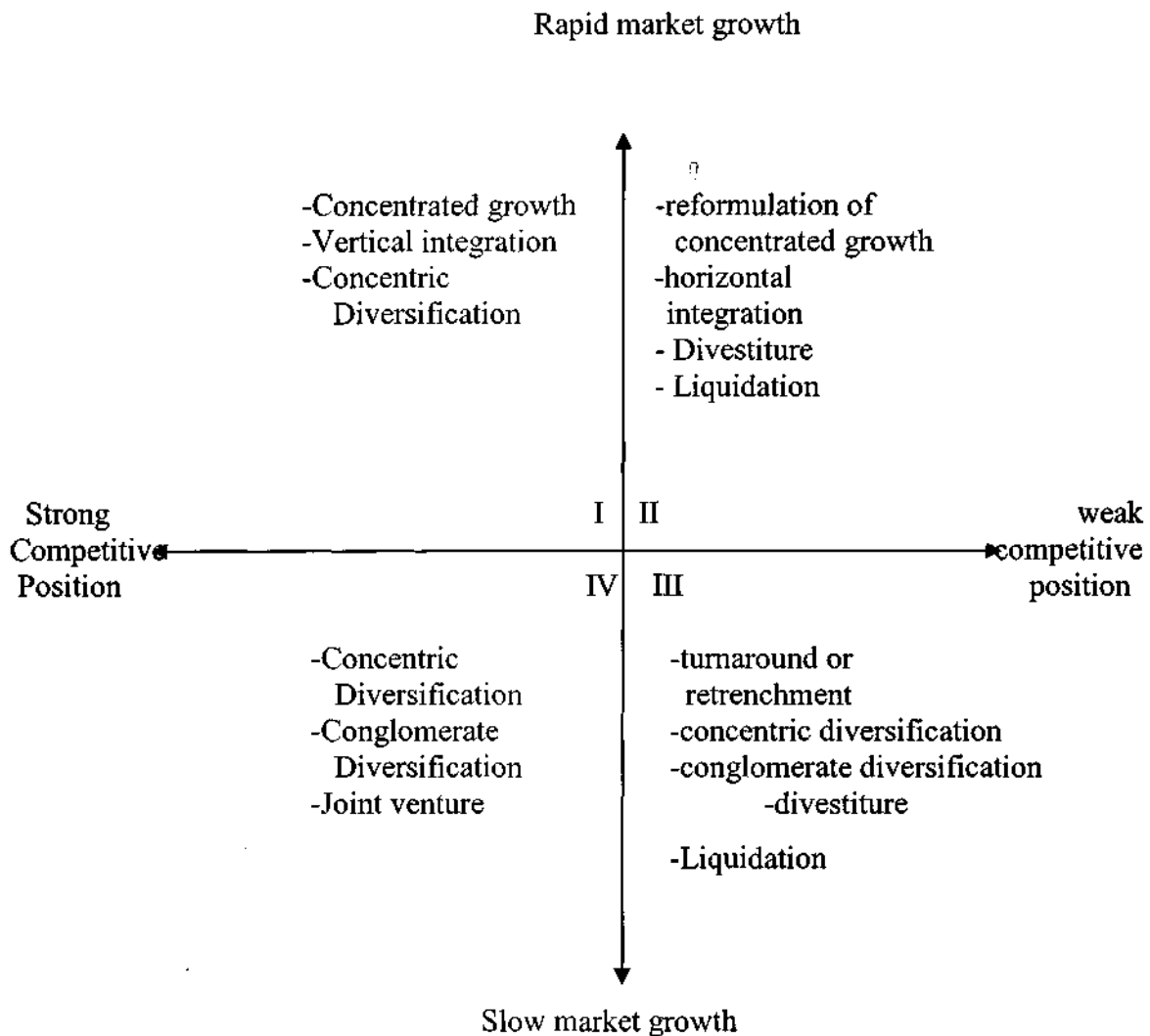
Firms in quadrant II choose to redirect resources from one internal business to the other. If the weaknesses of the business arose from inefficiencies, retrenchment can serve as turn around. Otherwise divestiture offers the best possibility for recouping the firm's investment, and liquidation can be attractive option if the alternatives are bankruptcy or an unwarranted drain on the firm's resources.

If a firm prefers internal emphasis for maximizing strength (quadrant III), the most common approach is a concentrated growth, or market penetration. With market development and product development, the firm attempts to grow its operation. Market development is chosen if the firm's strategic managers feel that its existing products are well received by new customers. Product development is chosen if they feel that the firm's existing customers will be interested in products related to its current lines. Sales can also be stimulated by innovating new product design or unique production technologies.

Maximizing a firm's strengths by aggressively expanding its base of operation usually requires an external emphasis (quadrant IV). Horizontal integration makes possible a quick increase in output capability. In concentric diversification, competencies of diversifying firms are likely to facilitate a smooth, synergetic, and profitable integration. Joint venture or strategic alliance allows firms to extend its strengths into competitive arenas that it would be hesitant to enter alone. A partner's production, technological, financial, or marketing capabilities can reduce the firm's financial investment significantly and increase its probability of success.

2. A second guide to selecting a promising grand strategy is shown in figure 2.7, According to Pearce (1997), figure 2.7 is based on the idea that the situation of a business is defined in terms of growth rate of the general market and the firm's competitive position in that market.

Figure 2-6 grand strategy matrix based on the market growth



Source:

Pears & Robinson (1997), Formulation, Implementation, & Control of Competitive Strategy, 6th edition, McGraw-Hill, Irwin. (P.267)

Firms in (quadrant I) are in strongest competitive position in a rapidly growing market. Because consumers seem satisfied with the firm's current strategy, shifting notably from it would endanger the firm's competitive advantage. However, if the firm has resources that exceed the demand of a concentrated growth strategy, it should consider vertical

integration. Finally, to diminish the risks associated with a narrow product or service line, the firm might consider concentric diversification.

Firms in quadrant II must seriously evaluate their present approach to a market place for it is in a rapidly growing market but with weak competitive position. In a rapidly growing market even the small or relatively weak business is often able to find a profitable niche. Thus, formulation or reformulation of concentrated growth strategy is usually the first option. However, if a firm lacks either a critical competitive element or sufficient economies of scale to achieve competitive cost efficiencies, then a grand strategy that directs its efforts toward horizontal integration is a desirable alternative. The final pair of options involved in deciding to stop competition in the market or product areas of the business is divestiture and liquidation.

Businesses in quadrant III expect a continuation of slow market growth, and a relatively weak competitive position will usually attempt to decrease their commitment to the business. Minimal withdrawal is accomplished with retrenchment. An alternative approach is to divert resources for expansion through investment in other businesses. This approach typically involves either concentric or conglomerate diversification. The final options are divestiture, if an optimistic buyer can be found, and liquidation.

Quadrant IV businesses (strong competitive position in a slow growth market) have a basis of strength from which to diversify in to more promising growth areas. These firms can choose concentric diversification for they characteristically have high cash flow. A second option is conglomerate diversification, with diverse investment risk and does not divert managerial attention from the present business. The final option is joint venture. Through it a domestic business can gain competitive advantage in promising new field while exposing itself to limited risks.

2.6 Conclusion

Strategic management allows organizations to become more proactive than reactive in shaping their future, Andrews (1987). Business using strategic management concepts shows significant improvement in sales and productivity. A business is affected by the activities in its environment. The one, which operates in a way that fits best in the environmental and industry situations, ends up with success. Hence it is obvious that formulation of appropriate strategy brings success. To that extent, this chapter has attempted to assess all the ways to be used in analyzing the environment and company situation.

The next chapter attempts to discuss the company background, operations, market structure, competitors including the financial report and performance of Dahlak Share Company.

Chapter three: Dahlak Share Company

3.1 Introduction

This chapter will deal with the reporting of collected data from the company. The case study will introduce the company background, which proceeds from the company vision, mission, objectives and present strategy. Relevant economic, political, and social situations follow in the country profile. In the case study the performance of the company using financial reports will be discussed.

The data for the external and internal environment as well as the present situation of the company is collected from the interviews made with the management, from company documents, company financial reports and relevant newspapers, web news, and back issues.

3.2 Company Background

Dahlak Share Company was established in 1964, as “Bini Shoe Factory”, by an Italian entrepreneur named by Rafaela Bini. Its main purpose was to supply the Eritrean and Ethiopian markets with plastic shoes and sandals. It soon expanded and diversified its products to canvas (tennis) shoes, leather shoes and boots targeting the middle and lower segments of the market. The Company soon dominated the markets and became a leader in Ethiopia’s shoe industry.

In 1975, the Dergue nationalized the factory and renamed it “Dahlak Shoe Company”. During this period, it continued to produce the same type of shoes with out any major change in technology.

After the Independence, Dahlak was taken over by the government and continued to operate under the supervision of the Ministry of Trade and Industry until it was privatized on 31st January 2001. Although some machinery from the EPLF were incorporated into the factory after independence, and some new machinery and equipment bought in the

years 1994 to 1997, it did not considerably strengthen its productive capacity. Considerable investment remains to be made to update the factory.

Currently, Col. Mengesteab Tecele and Lt. Col. Tecele weldeslassie own each 49% of the company shares. Both own a lime stone factory called “Tinsae Lime Stone Factory” and a trading company called “Tinsae Import and Export Co.”. Currently they are occupied in running these three companies. The owners have no past experience in shoe manufacturing, but they are resourceful businessmen and aggressive marketing enthusiasts capable of making a difference. They have traveled to four neighboring countries and are expecting orders soon. The other partners are Mrs. Freweini Fshazion, Mr. Kiros Tecele and Luwam Tecele. Their ownership is indicated in table 3-1.

Table 3.1 Dahlak Share Company Shareholders capital statement for 2003 (In Nakfa)

1	Mengsteab Tecele Kibrom	10,039,880.00 Nkf
2	Tecele Weldeselassie	10,039,880.00 Nkf
3	Freweini Fshazion	20,120.00 Nkf
4	Kiros Tecele	10,060.00 Nkf
5	Luwam Tecele	<u>10,060.00 Nkf</u>
	Total owners capital	<u>20,120,000.00 Nkf</u>

Source: Asmara, “rehabilitation of the company”, Dahlak share company, 2003 (p.2)

Dahlak Share Company is run by an autonomous management team led by the General Manager Mr. Debesay who was one time General Manger of the Red Sea Tannery before joining the Dahlak Share Company.

3.3 Company vision, mission, objectives, and strategy

Strategy is advisable to either profit-making or non-profit making organizations. How can a manager of a single company operate unless he/she fully understands the situation in which the company is operating and the internal capability of the company? Hence, Dahlak Share Company has its own mission and specific objectives.

The mission of the company is, *“production of quality footwear and related products at competitive prices and efficient marketing of the products in domestic and potential export market”*. In line with its mission, the objectives of Dahlak Share Company for five years from 2003 are to:

- Produce a variety of quality and competitive leather shoes, working shoes, plastic shoes and plastic utensils.
- Expand the share of local market and diversify the export market.
- Improve the financial performance of the company.

The senior management body and board of directors of the company formulated the following strategies to meet the above stated objectives.

Initially and with the acquisition of the company (in 2001) by new owners the strategy of the company focused on the areas of marketing, technical and manpower development functions. The resources of the company were directed in conducting development researches emphasizing on quality product for new market which necessitates rehabilitation, replacement and installation of machinery and equipment; and reviewing organizational structure and staff.

Based on company documents, the five years strategy, since 2003 include:

1. Explore potential market, which at least can serve to utilize the present capacity of the company by:

- Introducing new product ranges to the present and newly discovered markets
- Expanding the already existing sales in Uganda.

- Exploring other potential markets in the Great Lake region of Africa using Uganda as a base and farther expanding market to Europe by providing competitive products.
2. Establish additional important strategies to minimize expenses by improving distribution channels, are presented as follows:
- Owning distribution channels in Asmara (capital city of Eritrea), Keren and Barentu (capital cities of two zobas in the country).
 - Identify and find effective sales agents in non-included local markets, and international markets.
 - Utilize effectively and aggressively the market outlets in Uganda and other neighboring countries.
3. Advertising and promotion is the greatest strategy the company is planning to use by:
- Using local mass media for advertising and promotion.
 - Participating in various exhibitions both at local and international level.

3.4 Country profile

Eritrea is situated almost half way between Europe and East Asia. It has conducive political and business strategic position. This causes it to be influenced by the activities going on in those countries. The brief view of the country's situation follows:

3.4.1 Political stability

Eritrea is a newly independent country in the Horn of Africa. It borders with The Red Sea in the east with Sudan in the north and west, with Ethiopia in the south and with Djibouti in the southeast. The overall size of the country is approximately 125,000 sq. km. Eritrea's varied topography includes a hot and arid climate, coastal plains, ragged mountains and plateaus, which represents a harsh yet fragile environment. Rainfall is not only low (less than 200mm) over two third of the country but also irregular. The risk of drought is always present.

- Exploring other potential markets in the Great Lake region of Africa using Uganda as a base and farther expanding market to Europe by providing competitive products.
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- Owning distribution channels in Asmara (capital city of Eritrea), Keren and Barentu (capital cities of two zobas in the country).
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Industrial development in Eritrea began during the Italian colonial period (1890 to 1941), when a large number of firms were established in light manufacturing (food and beverages) and construction materials (cement, brick, and tiles) (Mebrahtu, 2004).

The Ethiopian Emperor Haileselassie annexed Eritrea in 1962, which triggered the war for independence and caused the decline in industrial production. Despite nationalization of assets in the mid -1970 under the socialist Dergue regime (1974 to 1991), Eritrea still accounted for 30% of Ethiopian industrial production and was one of the most industrialized areas in East Africa. It is clear today that some of the commercial and industrial skills have endured these phases of relative idleness (Mebrahtu 2004).

The three-decade long battles for independence by early 1990 left farmlands and infrastructure devastated. An estimated 80% of the country infrastructure had been destroyed (Mebrahtu 2004). After a referendum the country proclaimed independence on May 24, 1993. Just a few years into a new nation's life, war resumed with Ethiopia in May 1998.

In December 1995, Eritrea fought against Yemen over the disputed islands in the Southern part of the Red Sea. The Hanish archipelago dispute has been referred to arbitration and the two countries have declared their willingness to abide by the International Court's ruling.

Eritrea's relation with Sudan has also been strained since 1995. The two countries severed diplomatic relations and there are still clashes over border areas. Eritrea accuses Sudan of harboring radical elements of the Eritrean opposition and exporting radical Islamic ideology to Eritrea.

The border conflict, which erupted between Eritrea and Ethiopia on May 6, has resulted in the total closure of the border areas and diversion of Ethiopian shipping from the ports of Massawa and Assab to the port of Djibouti. The immediate result of the economic blockade imposed by Ethiopia by stopping all economic and commercial activities with Eritrea has resulted in a sharp hike in prices of some basic imported goods, (Internet4). A

peace agreement was signed in Algiers in June 2000. Both sides agreed to a border decision made by an independent boundary commission in The Hague in April 2002, and the physical demarcation is still in process (Mebrahtu 2004).

Firms require a stable macroeconomic environment to lower risk and facilitate long-term financial, employment and investment decisions. After independence, the government of Eritrea was quite successful in stabilizing most major macroeconomic indicators. However, many of the gains in macroeconomic stability achieved during the early years of independence were reversed during the border conflict. Regaining this ground will take much longer than did the initial stabilization, partly due to a continued perceived military threat from Ethiopia and partly because Eritrea's room for maneuver is much smaller than it was during the post independence (Mebrahtu 2004).

3.4.2 GDP Growth

According to Mebrahtu (2004), GDP growth averaged 7.4% from independence 1993 through 1997. The border conflict disrupted this growth, which sent it to 0.3% in 1999 and to negative 11.9% in 2000. Growth resumed in 2001, led by recovery of agricultural production. The manufacturing sector expanded by about 50% from 1993 to 1997, according to the rough estimations compiled by the International Monetary Fund. The manufacturing sector was largely stagnant during the war years 1998-2000, and most likely a large percentage of that production was related to war efforts. The private sector has tended to concentrate on services, namely on exports and distribution. Manufacturing growth sector has begun to pick up slightly in 2000 and 2001. Although the manufacturing sector constitutes a small percentage of GDP, the government of Eritrea emphasized developing it because it is central to the strategy of growth through exporting labor-intensive light manufacturing.

3.4.3 Inflation

Inflation was traditionally low in Eritrea (and previously in Ethiopia), was brought firmly into the single digit range by 1996-1997. On May 1, 1998 the National Bank of Eritrea

adopted a free-floating exchange rate. According to the regulation, each bank was to set the exchange rate where anyone can convert Nakfa to hard currencies freely, (Interent4). During the war years (1998-2000), inflation (end year to end year) averaged 15.5%, peaking at 26.8% in 2000.

The initial inflation was caused by the introduction of the Eritrean currency the Nakfa. A large part of the increase during this period was due to food price inflation spurred on by the disruption of agricultural production, due to the Ethiopian invasion of the western lowlands in May 2000. The inflation rate then started to subside, falling to an annual rate of 7.7% by the end of 2001. While there are no actual report yet available for inflation during 2002 and 2003, it would be surprising if it had not moved back into double-digit range, given the continued high defense expenditures, slow progress on demobilization, problems in financing with some of the donor countries, and problems with Sudan (Mebrahtu 2004).

3.4.4 Exchange rate

In 1997, the dual exchange rate (exchange rate of both courtiers, Eritrea and Ethiopia) was unified, and the Bank of Eritrea was established. In the same year the new currency, the Nakfa (Eritrean currency) was introduced, on par with Birr (Ethiopian currency). By early 1998, the exchange rate was stable, backed by reserves that reached nearly 5 months' of imports of goods and services.

During the war, the government kept the normal exchange rate in line with inflation and the real exchange rate was appreciated. The parallel market for foreign currency began expanding. By 2000, the foreign exchange was being rationed, pushing the black market rate as much as twice the official rate. While this gap was significantly reduced for a while during 2001, the foreign exchange premium grew again during 2002 and was in the 60-70 percent range by October 2002 (although in an admittedly thin and volatile market). It was likely to be harbinger of renewed inflationary pressures (Mebrahtu 2004) Currently, The government of Eritrea tightly controls foreign currency, and there is no other alternative, (Mr. Debesay, Mrs. Berhe).

3.4.5 Eritrean population

Eritrea is a country with a population 3.5 million. Out of these 3.5 million, 83% are living in rural and 17% living in urban areas. The rural people have small income and can only buy cheap inferior products. The Population distribution in Eritrea is 44% below 15 years, 50% between 15-64 years, and 6% above 64 years. The gender ratio is 49.9% for males and 51.1% females (Interent4). The diversification of this small population reduces the size of the market for businesses specialized in some areas of production.

The peak season of demand for shoes comes around the time of weddings season and also between June and August, when hundreds of Eritreans living abroad return home for holiday (Internet 3).

English, Italian and/or Arabic are widely spoken by Eritrean businesspersons, but many of their customers speak only Tigrinya (local Eritrean language).

Radio and television are not good options for conducting advertising due to the limitation of their services (Internet 4). In addition to this, they are controlled by the government, and concentrate only on providing news and public services programs.

Provision for customer support is crucial because local technical expertise in many fields is limited or non-existent. Some companies have regional representatives in Cairo or Nairobi ready to consult with their Eritrean clients. Since E-mail, and the World Wide Web is available in Eritrea, international communication can be done inexpensively.

3.4.6 Infrastructure

Construction, communications, and energy are the key sectors that require immediate investment. In 1997 the World Bank, through its lending affiliate, the International Development Association, announced that it approved a US\$30.3 million loan to the Government of the State of Eritrea (GSE) to rehabilitate its two major ports in the Red Sea, namely Massawa and Assab (Internet 4). There are numbers of major road construction plans and projects underway in Eritrea. Airport construction and renovation

are also parts of the infrastructure development program mainly the Asmara and Massawa airports. The importance of the Massawa airport cannot be understated, considering the port city's importance as a tourist center, a source of export commodities including salt and fish, and the ongoing plan to convert the port into a free trade zone. Construction of a terminal for Assab airport is underway. These major renovation plans, besides other airport rehabilitation programs, including Dahlak Island airport, will soon be implemented (Internet 4).

The Internet access in Eritrea has started in 2003. In the case of telecommunication, in addition to the effective landline telephones, Eritrean Telephone Service has introduced mobile phone service in 2004. Eritrean airlines have gone operational in 2003.

3.5 Overview of Footwear industry

The world footwear and leather products sector is moving from high-cost industrialized countries to developing countries. The short to medium-term outlook for the hide, skin, and leather product sector is very promising. According to (Internet 2), global trade in hides, skins and leather products has tripled in the last fifteen years and was valued at approximately US \$48 billion in 1998. This includes US \$26.5 billion in leather footwear and footwear with leather uppers, US \$15 billion in leather and leather products and US \$6 billion in raw hides and skins.

Many African companies have strong potential in this sector regarding raw material and human resources, but have mainly remained suppliers of raw and semi-finished products. Only a limited number of African companies have developed the capacity to produce finished products. Lack of management, marketing and technical skills at each step in the process, affecting a low rate of raw material recovery to poor product design, have constrained the development of the leather industry in many countries. Although improvements over the last decade have been made, the export potential of the sector still suffers from lack of long-term product and market development strategy on the part of producers including, lack of trade support services and development facilities such as exchange of market information, business contacts, including trade finance and training

and advice in product and market development. Unawareness on the part of importers with respect to sourcing African opportunities is also a major constraint to the development of the leather industry in African countries.

The international market in leather has a need for potential hides, skins, leather, leather products and footwear that could be produced in Africa. To estimate the potentials of the African contribution to the leather industry worldwide the following percentages will suffice. According to (Internet 2), the African share of total world production is as follows:

African share of total world production:

- 5% of bovine hides and skins
- 14% of goat and kidskins
- 9% of sheep and lambskins.

However, its share of world trade is:

- Less than 2% in raw hides and skins
- 2% for leather and leather products
- Less than 1% for leather footwear and footwear with leather uppers.

Based on an interview with the general manager, Dahlak Shoe Company have no enough customers for its products. However, the reason is not because the product is outdated. The general manager did not hide the fact that the lifespan of the shoes in the market are very short. Chinese companies are changing their designs every two to three months.

3.6 Eritrean shoe companies

There are about six major shoe factories in Asmara. They mainly supply to the local market. As Mr. Debesay explained, following nationalization each company was producing one or more special products. Out the local shoe companies only Deluxe Shoe Factory is producing products similar to those of Dahlak Share Company.

The shoe manufacturing companies have been exporting their products to the neighboring countries in East Africa, mainly Ethiopia. About 80% of the shoes produced in Eritrea

were exported to Ethiopia. The Eritrean shoe products are well known in Ethiopian markets (Hailemariam 2001). However, the market to Ethiopia began to diminish. The Ethiopian government has introduced tariff barriers to Eritrean products in 1997. Due to the introduction of the Eritrean new currency (Nakfa) In November 1997, (Hailemariam 2001), the shoe factories began to suffer from lack of market. In the past General Manager of Dahlak Share Company expressed his worry saying, "We have been putting all our eggs in one basket. If we do not get an alternative market, it will be difficult for our company to remain profitable."

The shoe manufacturing companies are selling their products on the domestic markets and exporting to neighboring countries. According to (Hailemariam, 2001), The domestically produced leather products account for only 35% of the domestic leather shoe market and 11% of the domestic leather goods market.

In Eritrea there are only two tanneries but six major shoe companies and several small shoemakers. These shoe companies are dependent on these major suppliers. On the contrary these tanneries do not consider the local shoe companies as their major customers, because they export their products to Europe and they are dominant suppliers in the domestic markets.

A large variety and a better quality of leather will provide a better quality of manufactured goods. "In the footwear production, there is a large amount of wastage because of defects in the finished leather. This is mainly due to the fact that the bulk of good leather is exported in its semi processed form, and low quality or rejects from the semi-processed hides and skins are converted to finished leather for the local market (Internet 2)." This practice provides cheaper cost, but it is hampering the international competitiveness of the shoe manufacturing companies.

3.7 Investment and operation of the company

Dahlak has more than 300 pieces of machinery and equipment. Some of them have been functioning since the mid sixties. Those installed during the last decade include upper cutting, injection, molding, scrap grinding, and milling machines.

As indicated in figure (key success factors), new machinery is added to raise productivity and diversify product mix. A number of the old machinery needs to be replaced. The replacement includes three injection machines (in replacement of the present six machines) and sixteen sets of moulds for the plastic section; one injection machine and nine sets of moulds for the canvas section; heat setting and a small machine and three sets of mould for the leather section; three sets of moulds for the utensils section and an extruder for the granulation plant.

The furniture, fixtures and office equipment of the factory are quite numerous. Those in use appear to be more or less in good shape.

The products of the company are divided in labor intensive and capital-intensive sections. While utensils and plastic shoes are highly capital intensive, leather shoes are the most labor-intensive product of the company. The company is administered by well-drafted organizational structure. The administration office is responsible for the motivational and other compensation factors. There was once bonus when the company was operating at profit. However, the last three years the employees did not get any motivational payment. As the Administration Manger also explained, the sole training given are on the job training. He added that there is no off the job training because there is no institution in Eritrea that give skilled technical training.

3.7.1 New investment on machinery

Products like plastic shoes and plastic utensils of the company are capital intensive. The company is renewing its machinery in accordance with the necessity and availability of budget. Investment on machinery is illustrated in table 3.1.

Table 3.1-fixed investment for machinery

Item	Type of machine	Quantity installed	Cost in US dollars
1	Band knife splitting	1	4,000.00
2	Folding and cementing machine	1	6,000.00
3	Sewing machine, post bed two needle	2	4,000.00
4	Automatic eyeleting machine	1	3,000.00
5	Sole stitching machine	1	14,000.00
6	Sole activating	1	9,000.00
7	Sole attaching machine	1	3,000.00
8	Nailing machine	1	3,000.00
9	Back part forming machine	1	14,000.00
10	Rubber sole making machine	1	120,000.00
	Total		180,000.00

1. Source: Asmara, "rehabilitation of the company", Dahlak share company, 2003 (P.5)

These are essential parts of the investment that the management believed the competitive position could foster through adding them to the company.

Another area concerning the success of the company is the leather shoe market. Leather shoes are labor-intensive products. The efforts of the company made get good market was by improving the design of the products. The company document reveals that the action taken to man the plant is carried out on the basis of depth study regarding the organizational efficiency and the present and foreseeable workload of the factory. The

human resource program includes training in management (personal, property etc); commercial (materials procurement, export procedures, marketing etc); technical (production techniques, preventive maintenance etc.); and financial (general accounting, cost accounting etc). These training fields are organized with in the company and / or in appropriate institutions of specialized learning.

3.7.2 Raw materials

Raw materials of the factory consist of chemicals, leather, fabrics, soles and various auxiliary materials. As regards chemicals and other raw materials, about 62% of the requirement is imported. Leather packing materials and others are purchased locally. Most of the chemicals and other raw materials consumed are imported mainly from Saudi Arabia and Italy. Raw materials requirement at full capacity or consumption of the factory is indicated in table 3.2

Table 3.2 Raw materials requirement for Dahlak Share Company ('000)

	Imported	Domestic	Percentage	Total
Leather	-	6,612	37%	6,612
Soles	10,210	-	57.5%	10,210
Auxiliaries	774	-	4.5%	774
Packing material	-	<u>163</u>	<u>1%</u>	<u>163</u>
Total	10,984	6,775	100%	17759

Source: Asmara, "business plan", Dahlak Share Company 2000(P.12)

Leather is bought from Red Sea tannery- the major leather supplier in Asmara. Other packing materials are also available from different producers of the country. Only 38% of the raw materials are bought from local market.62% of the company's raw material, that is, soles and other chemicals are imported from foreign countries.

Eritrea is rich in cattle, goats and sheepskins, which are regarded as particularly, fine grains and desirable for manufacturing leather goods.

The skins of animals from the highland area are higher in quality in comparison to the skins of animals from the lowland areas (Internet 2). However, there is a problem in collecting and transporting the skins. According to the former General Manager of the Red Sea Tannery, Mr. Debesay, "The main constraint that we are encountering is the quality of the skin that we are receiving".

3.7.3 Company products and production process

After the proclamation of the "privatization policy" in 1996, government-owned factories were forbidden from making any new investment towards expansion and rehabilitation. They were simply supposed to run as is until they would be sold out to investors. This policy harmed the factory and there were considerable bottlenecks, which have to be eliminated related to machinery, components and skilled manpower.

According to the three-years plan of the company (starting from 2004) for the leather shoe production, it is planned to replace some of the existing cutting, stitching, eyeleting, and other auxiliary machines and introduce a new EVA-sole-making machine in order to increase the production of cementing line. Purchase and installation of new machines will be completed in the first year of the project. Production will immediately start, as machines are not all new to the factory and commissioning, start up and training operators will not take much time. This will be considered as a great advantage for increasing its capacity of operation.

The leather shoe production in Dahlak comprises two parallel lines of sole attachment: direct injection line and cementing (stuck on) line. The installed capacity at present is 960 pairs of shoes in the injection line and 240 pairs of shoes in cementing line per day. In the injection line, mainly military boots and heavy-duty boots with direct injected PVC soles are produced while in the cementing line other casual shoes for men, ladies and children are produced with stuck-on soles imported from Italy.

Other products in the company are Plastic Shoes, Working Shoes, and Utensils all with single product line, and granules, which are processed and sold to the shoe industries as raw materials. The production process of each product is shown in the following table.

Table 3-3:Dahlak share company production process.

Stage	Plastic Shoes	Utensil	Canvas jogging	Lather Shoes	Granule
1	Granule	Granule	Cutting	Cutting	Mixing/ blending
2	Injection/ Moldings	Injection/ blow molding	Preparation (marking, batching)	Preparation (marking, skiving, batching)	Granulation
3	Finishing (trimming, fixing buckles)	Finishing (trimming)	Stitching	Stitching	
4	Packing		Injection	Lasting	
5			Finishing/ trimming	Injection/ Cementing	
6			Packing	Finishing (coloring, lacing)	
7				Packing	

2. Source: Asmara, "rehabilitation of the company", Dahlak share company, 2003 (p.17)

Granule is semi-processed product completed with the shortest process. It is sold to other companies as the raw material for further production. Utensils are newly introduced plastic household goods. Plastic and working shoes are both plastic products. The only difference is the sole of canvas working shoe is strong attached by special machine. Leather needs long production process. It is highly labor intensive and its quality is highly dependent on design

3.7.4 Company performance

The income statement provides data for measuring the operating performance of an enterprise. As we can observe from the income statement of the company below, though the gross operational income is at a profit, the company is incurring greater loss from year to year. And this is because of the created cost of capital (interest expense) as is apparently showed in the income statement.

. Table 3-4: Dahlak Share Company Income Statements for 2001,2002,and 2003.

Dahlak share company				
Income statement				
For the years 2001,2002,2003				
Year		2001	2002	2003
Sales		11,407,078	17,485,625	13,543,754
	Cost of goods sold	11,300,150	14,875,549	11,795,148
		106,928	2,613,077	1,748,606
	Other income	77,115	280,973	359,932
	Gross operational profit	184,043	2,894,049	2,108,539
Expenses				
	Distribution expense	512,508	486,317	476,918
	Administration expense	373,837	636,070	681,235
	Interest expense	487,546	2,081,784	2,772,535
	Audit fee	35,000	18,000	15,000
		1,408,891	3,222,135	3,945,687
Net income/loss		-1,224,848	-332,086	-1,837,149

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Source:

- Asmara, "financial Report", Dahlak Share Company, 2001.
- Asmara, "financial Report", Dahlak Share Company, 2002.
- Asmara, "financial Report", Dahlak Share Company, 2003.

Figure 3-5: Dahlak share Company statement of accumulated loss

Dahlak Share Company Statement of accumulated loss For years 2001,2002,2003			
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Loss balance from previous year	-1,224,848	-1,598,415	-1,773,129
Withdrawal plus loss of the year	<u>-373,567</u>	<u>-134,714</u>	<u>- 198,734</u>
Accumulated loss	<u>-1,598,415</u>	<u>-1,733,129</u>	<u>-3,570,278</u>

Source:

- Asmara, “financial Report”, Dahlak Share Company, 2000
- Asmara, “financial Report”, Dahlak Share Company, 2001.
- Asmara, “financial Report”, Dahlak Share Company, 2002.
- Asmara, “financial Report”, Dahlak Share Company, 2003.

The sales of the company increased from 5.1 million Nakfa in 1991/92 to 40.7 million Nakfa in 1995, but it slightly declined to 38.9 million Nakfa in 1997. Since 1998, Sales failed dramatically due to loss of the huge market in Ethiopia. In 2001 it was recorded to be 11.4 million. In 2002 sales rose to 17. 48. However, the market has declined to 13.53 due to the severe foreign competition.

The operating profits of the company rose from 1.2 million Nakfa in 1991to 9.1 million Nakfa in 1995, and declined to 3.4 million Nakfa in 1997.In 2001 it went down to 0.18 million, and slowly rose to2.8 million in 2002 and 2.1 million in 2003. The operating profit margin of the company was 23% in 1991/92 and 22% in 1995, and declined to 9% in 1997 due to a slight decrease in sales and an increase in costs. In 2001 the operating profit margin was 1.6%. The company was operating almost at loss. Due to the absence of enough market, the company’s sale in 2001 was 16.5%; in 2002 16.6%; and in 2003 15.6%.

Figure 3-6: Operating Results of Dahlak

Year	1991	1995	1997	2001	2002	2003
Sales	5,081	40,706	38,896	11,407	17,485	13,534
Cost of sales	3,459	30,597	34,535	11,300	14,873	11,795
Other income/expenses	<u>(443)</u>	<u>(988)</u>	<u>(916)</u>	<u>77,115</u>	<u>280,973</u>	<u>359,932</u>
Operating profit	1,179	9,121	3,445	184	2,894	2,108
Profit margin 6	23%	22%	9%	1.6%	16.5%	15.6%

Note:

1. Operating results for the years 1991,1995 and 1997 from Hailemariam (2001)
2. Operating results for the years 2001,2002, and 2003 from the company records.
3. Other expenses include sales and administrative expenses. Other income includes income obtained from merchandizing some goods.
4. Profit margin is computed by dividing the operating profits by sales.

Source:

Asmara, "Ministry of Trade and Industry", Census of Large Manufacturing Establishments", 2003. (p.12)

The balance sheet of the company reveals the situation of the company such as the way the company was collecting its account receivables.

As it can be observed from the inventory, it was 8.6 million in 2001, 10.3 million in 2002, and 18.5 million in 2003. Here it shows the company suffering from the absence of market. The company is producing great quantity of production in the absence of market. Mr. Sequar replied to this question by saying that they are expecting big orders from some African countries.

Figure 3-7 Balance sheet for Dahlak Share Company

Dahlak share company				
Balance sheet				
As at December 31; 2001,2002,2003				
		2001	2002	2003
ASSETS				
Current assets				
Cash at hand		0	0	961,067
Cash at bank		16380	231,722	106,174
Accounts receivable		866168	-418,502	-3,483,509
Inventory		8592311	10,350,800	18,153,329
		9441856	10,164,020	14,872,101
Other assets				
Differed expenditure		431848	323,886	215,924
Fixed assets				
Fixed assets at book value		19,957907	19,521,775	18,937,151
Goodwill		448930	448,930	448930
TOTAL ASSETS		29,801,614	30,009,681	34,474,106
LIABILITIES AND				
SHARE HOLDERS AQUITY				
Liabilities				
Current liabilities				
Bank overdraft		9,869,636	10,060,940	195,173,667
Account payable and accruals		1,397,226	3,846,175	1,108,513
Bank loan current portion		2,556,000	2,556,000	2,556,000
		13822862	15,792,786	23,181,876
Long term liabilities				
Bank term loan long term portion		7105387	5,482,244	4,390,725
Total liability		20928249	21,275,030	27,572,605
Share holders equity				
Subscribed capital 20,120,000				
Issued and paid		10,471,880	10,471,880	10,471,880
Accumulated loss		-1,598,415	-1,737,229	-3,570,379
Total share holders equity		8,873,365	8,734,651	6,901,501
TOTAL LIABILITY AND				
SHAREHOLDERS EQUITY		29801614	30,009,681	34,474,106

Source:

- Asmara, “financial Report”, Dahlak Share Company, 2001.
- Asmara, “financial Report”, Dahlak Share Company, 2002.
- Asmara, “financial Report”, Dahlak Share Company, 2003

3.7.5 Company property

As it is indicated in table 3-6, out of the total area of the company 63% is under use and 27% of the total area are stores. These stores are used to keep different raw materials and finished products. Though The Company has large and slow moving stock, the stores are well organized and administered.

Table 3-8: land allocation of Dahlak Share Company

Types	M2	Percentage
1.coverd area	10,349	63%
Office building	264	2%
Production halls	4275	25%
Stores	4450	27%
Workshop	446	3%
Others	914	5%
2.others	<u>6,196</u>	<u>37%</u>
Total	16545	100%

Source: Asmara, “rehabilitation of the company”, Dahlak share company, 2003.

The transport fleet of the company comprises four vehicles, one forklift and one bicycle. Out of the vehicles one is a truck used to transport finished products to the marketing stores inside the country, and moving raw leather from Red Sea tannery and the port of Massawa to be sent abroad.

3.7.6 Marketing

Before the 1998 war with Ethiopia, Dahlak Share Company exported about 80 percent of its products to Ethiopia, employed 930 workers, and prospered in this reliable market,

(Internet 3). Though the capacity of the company is improving, sales of the company has suffered decline year after year following the Ethio-Eritrea boarder dispute.

As Hailemariam (2001), indicated in his research paper the annual sales of the company averaged 26,112,000 Nakfa. This figure was satisfactory to the company not only because it was enough but because the inflation was stable and the exchange rate was low to import necessary raw materials from abroad.

Table 3-9: Sales for Dahlak Share Company

Types of products/year	2001	2002	2003
Leather shoes	3,096,086	3,654,346	2,711,532
Canvas shoes	37,889	112,670	90,005
Plastic shoes	7,510,234	7,206,279	7,680,490
Jogging gents shoes	12,839	32,862	157,446
Plastic utensils	750,026	3,274,550	3,119,054
Total sales	11,407,077	14,485,625	13,534,754

Source

- Asmara, "financial Report", Dahlak Share Company, 2001.
- Asmara, "financial Report", Dahlak Share Company, 2002.
- Asmara, "financial Report", Dahlak Share Company, 2003

The company sales dropped to less than half of 1998; 11,407,077.58 Nakfa in 2001 and showed slight progress in 2002, and again declined in 2003. The main reason for this is the loss of huge market in Ethiopia. The products also were not known in the other parts of the world. The main products of the company were shoes for the military, for workers and so on. As the problem with Ethiopia became serious, the company started to shift its production to leather shoes. The raw material for the leather shoe is mostly bought locally. Though the sales of the leather shoe were satisfactory in 2001 and 2002, it declined to 942,746 in 2003 following the introduction of Chinese products to the local market. The government did not stop the introduction of those cheap synthetic shoes.

Mr. Debesay explained, “There is no lag of timely to put our products in Eritrean markets. Either the businessmen will come and take their products or we may transport them to their place using our vehicles. The problem is with the foreign markets specially Uganda; it is very long way to reach Ugandan market. We must travel through Red Sea up to Somalia and then transport the containers using trucks.”

Mr. Debesay also added that they do have marketing people with good personal skill. The company is allowing the return of reasonably damaged products.

3.8 Conclusion

Dahlak Share Company is producing and exporting various types of shoes and plastic utensils. The mission of the company is, “production of quality footwear and related products at competitive prices and efficient marketing of the products in domestic and potential export market”. This company is operating in highly competitive market in Eritrea, in the Great Lakes Region of Africa and other countries. About 62% of the raw materials (like chemicals and sole) of the company are imported from European and Saudi Arabian companies. The rest of the raw materials, mainly leather are supplied by major local supplier namely the Red Sea Tannery. Main competitors of Dahlak Share Company are Deluxe shoe factory, and other international shoe companies. Though, the company lacks highly skilled manpower and adequate capital, it is well known for its shoes and plastic utensils. The following chapters will analyze these and other information in accordance with their contribution to the formulation of best strategies.

Chapter four: Company performances analyzed

4.1 Introduction

The objective of this study is to formulate appropriate strategy by analyzing the external and internal environments that influence the choice of an appropriate strategy.

In the previous chapter the situation in which Dahlak Share Company is operating was reported in detail. In this chapter the situation of the company (the case) will be critically analyzed against the theoretical backdrop of the paper. The data from the interview and other secondary data will be used to enrich the analysis.

This part of the paper aims at helping the managers to get enough information to help them on their decision to improve the current strategy. This chapter commences by starting with the external analysis, industry analysis, company analysis, and in the end, evaluation of present strategy and formulation of appropriate strategy to the company will follow on the recommendation part of the paper.

4.2 Macro-environment analysis (PEST)

It is a must for the company to critically study the environment where it is operating. This environment is a situation where most of the companies do not have power to influence. Hence thorough study is vital before undertaking investment projects.

4.2.1 Political Aspect

Almost all the interviewed officials believe that the stability and harmony of the country is a must for the success of their company. Though production capacity of the company is huge, there is no enough market to sell. The other companies are big enough to enjoy the economies of scale. Moreover, these are monopolies in the world market. For this reason the company puts huge amount of resource to look for new markets. As Mr. Debesay stated, the shoe industry in Eritrea is always putting pressure on the government to put some protective laws against severe competition from the foreign companies. However,

the government seems to stick to free competition policy. This is aimed at controlling the price of the products as the products from many companies compete in free market. As a result, the political situation of the country doesn't favor the company.

4.2.2 Economic Aspect

The economic situation of the country and the customers do influence the decision of the company in investment and the type of product sent to the target market. Eritrea's economy has been growing strongly since 1991. However, the country's economy declined after the boarder conflict. Currently the GDP is recorded two digits negative. Most of the productive labor as well as other resource of the country is engaged mainly in defense. As a result, the inflation rate is increasing from time to time. Since the border conflict, the currency exchange rate in the black market is higher than the in regular exchange market. This shows that unless the rate is controlled it may escalate out of hand.

4.2.3 Social Aspect

The Eritrean population is too small to buy large quantity of products. The majority of the population lives in rural areas with small income. Mr. Debesay, the General Manager stated, "the company's production capacity is more than five million pairs of shoes a year. If we assume all Eritrean people to have a pair of shoes per year, the company cannot sell all of its yearly products."

The customers communicate in Tigrinya, Arab and English languages. The presence of the broadcasting media in both languages makes easy to promote the products. Generally, radio, television and newspaper are good instruments for promotion. However, radio and television are not good options for conducting advertising in Eritrea due to the limitation of their services (Internet 4). In addition, these are controlled by the government, and concentrate on providing news and public services programs. As a result, word of mouth is the most effective way of promotion in Eritrea.

Provision for customer support is crucial because local technical expertise in many fields is limited or non-existent. Some companies have regional representatives in Cairo or Nairobi that can consult with their Eritrean clients. Since E-mail and the World Wide Web are available in Eritrea, international communication can be done inexpensively.

We can therefore conclude that Eritrean population being very small can be reached very easily through representatives locally and internationally.

4.4.4 Technological Aspect

As the General Manager explained, the products to the foreign countries are going out through the port of Massawa. The presence of fast and effective port is very helpful to the company. Nationwide renovation (construction) of highways makes transportation easy to all local branches. Another great opportunity is the presence of cheap cargo transportation by Eritrean airlines. The company is negotiating for cheap but fast transportation with Eritrean Airlines as the plane flies with usually half empty space.

Before the Internet all the orders and other processes like designs from professional expertise were obtained with ordinary mail. Currently the company is receiving orders of its products; design of its products to the international customers; and customized designs; and various business deals through the Internet. It is a great opportunity to the company to use Internet in this fast and dynamic world. Local customers can also negotiate, process order, ask for more information using the mobile phone service, too.

4.3 Micro economic analysis

The next analytical step in formulating strategy is micro economic analysis. This includes the situation that affects the industry. Here the suppliers, the customers, the rivals, substitute products, and new entrants are the most relevant areas of the study (Arbe & Naidu 2001).

4.3.1 Threat from Rivals

Dahlak Share Company was nationalized and was managed in a single way by the Dergue regime. Due to the restructuring by the former government, the companies have been specialized in producing one or two types of products. The only local company that produces the same product as that of Dahlak Share Company is Deluxe Share Company. However, Dahlak is bigger and has stronger financial resource. According to Hailemariam (2001), Deluxe shoe factory produced on the target basis irrespective of demand for its products and that the products were of poor quality. Due to this, the company management tried to limit production to customers' demands and to improve quality. However, there was no marketing department at the factory and due to shortage of finance the managers were not able to advertise and to assess local or foreign markets. In addition, there was excess labor at the factory.

On the contrary, according to the General Manager of the company, Dahlak Share Company is working with highly structured organization. The marketing department of Dahlak is exploring market locally and in different countries. Unlike Deluxe, Dahlak Shoe Company has better expertise. As the general manger revealed, Dahlak Share Company did not lay off experts, even at the time of crisis. The company was wise enough not to loose its expertise power a result of years of experience.

As Mr. Debesay explained, "Dahlak shoes are highly branded in Ethiopia and Eritrea and their shoes are better quality when compared with Deluxe ones". Dahlak has three local distribution channels while Deluxe is restricted in the capital Asmara. Even though Dahlak Share Company and Deluxe Shoe Factory are both producing similar products, the operating performance of Deluxe Shoe Factory is lower than that of Dahlak. Though these are the facts, rivalry is unavoidable for the reason that Deluxe must exist in the market for it is difficult to liquidate in Eritrea. Mr. Debesay explained, "Most of the shoe companies in Eritrea would be willing to sell and liquidate their business. However, no body is ready to buy them". One of the major ways that Deluxe is trying to protect its market and capture additional market share is by lowering the price of the product.

Another threat for Dahlak comes from the products imported from abroad and sold in Asmara. These products come with better design but cheaper price. As the marketing manger said, “the main objective of these companies is to monopolize not only the Eritrean but also the world market”.

4.3.2 Threat from new entrants

As indicated in the case report, 80% of the shoe products were sold in Ethiopia before the border conflict. Currently this market is not available but the capacity of the factories is still there. Though the financial institutions are functioning well, the investors look for stable environments. Capital investment to the shoe factory means buying heavy machinery and training expertise to produce the needed quality products. The existing shoe companies already possess the expertise. Due to the above reasons and the present situation of the country, there is no much enthusiasm for huge private investment. There is no threat for Dahlak Company from new entrants.

4.3.3 Threat from substitutes

Mr. Debesay explained, “Though Dahlak leather products are comfortable and durable, at present synthetic shoes are the main substitutes. In addition to this, these shoes have attractive designs. The producers change their design in a short period of time. The main foreign suppliers of such products are the Chinese companies. These companies enjoy the economies of scale for they are big in size and provide fashion designs”. The marketing manger also added, “These companies are using unhealthy competitive mechanism like damping. Some times we see products selling at prices lower than their cost. Customers can pick any type of shoes in the market. There is no problem switching from one product to another”.

The other products of the company are plastic utensils. Utensils that are made from metal are the main substitutes for plastic utensils. These products are very expensive when compared with Dahlak products. Though the price is cheap, it needs continuous

minimization of the cost of production to maintain the price of the products. In both cases we can observe that there is threat from substitute products.

4.3.4 Bargaining power of suppliers

According to the case report, there are two major raw materials bought by the Dahlak share company. Though Dahlak Share Company is buying its entire leather from Red Sea tannery; and it is not a major customer of the factory. The two tanneries in Asmara sell their products to European market.

Mr. Debesay stated, "Fluctuation of demand and supply of leather products are our main constraint. The customers of the tanneries are mainly big Italian shoe companies and when they get demand for their products, Eritrean tanneries receive large orders and when their products are not demanded, there is no huge order. This fluctuation of demand in European markets directly affects the price of the leather as far as we are concerned. The price is getting higher as the demand from the international market is greater and it becomes cheaper as demand slows down." So the price fluctuates according to the European market situation. The tanneries are not providing quality products to the local shoe companies because the local shoe companies have no other alternative.

Other raw materials like sole and chemicals are imported from big companies in Europe and Saudi Arabia. These suppliers are also big international companies. The general manager stated, "The demand of Eritrean companies is very small as compared to the factories' production. Eritrean shoe companies are not major customers of foreign suppliers. Moreover, there is no common ground for the shoe companies to import raw materials in groups because the chemicals and soles needed by the companies in Eritrea are not the same. Different products need different raw materials".

Another big threat is that the owner of Red Sea tannery has planned to buy Deluxe Shoe factory. As the general manager explained, "though currently the impact of this forward linkage is not apparent, we could suffer at the time of demand escalation". These reasons are more than enough to expect big threat from suppliers.

4.3.5 Threat from customers

The major buyers of the Dahlak Share Company are small retailing shoe shops in Eritrea and Uganda. The shoes of Dahlak Share Company are not highly differentiated. Dahlak is not also known for its special services like transportation and allowances. Moreover, the shoe shops are very sensitive to the price of products because their customers belong to the low-income bracket. It is very easy for the customers to change supplier. As a result, Dahlak has no sole power to increase the price of products. The buying power of the shoe buyers in Asmara is highly elastic.

Mr. Debesay revealed, “The Company’s working shoes production is highly specialized and competitive. However, because it is targeting the lower income customers, it cannot increase the price”. The company is expected to be always careful in taking any decision concerning the price and quality of its products”.

4.3.6 Key success factors

Dahlak Share Company believes quality product with attractive design makes its products more acceptable in the market. According to Mr. Debesay the company has created a new section for design and technical support under the technical department. The known designer in the country runs this section. The company also plans to fill this department by sending some workers for further designing training abroad.

Another important point the company is concerned about is the distribution channel. The outlet which was only in Asmara, has spread to other regional towns. The regional shoe shops buy from Dahlak in order to save time and transportation cost. This helps the company’s success in the regions. The company’s outlet in Uganda has also tremendous advantage in penetrating the Great Lake countries’ market.

In order to penetrate and expand the international and local markets, distribution channels are not enough. As the marketing manager explained, the company’s effort in marketing is great. They are participating in many leather products exhibitions. These help them to

acquaint numerous customers with their products. They are also making intensive researches on the Great Lake countries and the Eritrean situation. The marketing manager said, "Believing that the marketing department is the locomotive to the company, we are making great efforts to substitute the Ethiopian lost market with other international markets. The long time experience gives us great competitive advantage on working shoes. The company is keeping its working shoe workers to guard the technical know-how from being acquired by other companies".

Above all the management believes the availability of modern machinery is most decisive to the success of the company. Investment on the machinery fosters the competitiveness of the company. For this reason, since 2001 the company has bought machines worth more than 180,000 dollars.

4.4 Company Analysis

This is the most important part of the strategic analyses, for it is the most easily changeable. After evaluating the environment and the industry, managers can build, maintain, or cut their resources to compete well in the market. Life cycle analysis helps to correlate the strategy with growth stage of the company's products or the growth of the market. Value chain analysis breaks down the entire company into specific but interdependent activities and evaluates each activity. SWOT analysis is a great instrument in understanding the company's situation in relation to its environment. These models related with the above stated models would help the management body to take the proper decision in formulating the best competitive strategy for the company.

4.4.1 Lifecycle Analysis

Different products of the company have different product life cycles. Working shoe in Eritrean market is on its maturity stage. Dahlak Share Company dominates almost all of the working shoes in the country. The customers take all that is supplied to the local market. However, there is no room to produce more than the current production. Working shoes are also exported to Great Lake countries like Uganda. These products are newly

introduced in those areas. Though it is new for the customers, the demand is increasing. This indicates that working shoes in these markets is growing.

Another type of product with tense competition is the leather shoes market in Eritrea. Leather shoes are under severe competition from Deluxe Shoe Company, Chinese shoes and other local small shoemakers. In this case designs are changed in a very short period of time. The life cycle is very short. Products become outdated very quickly. As Mr. Debesay explained, some shoe designs become outdated like in a period of three months. As a result in leather products frequent invention of new and attractive designs is imperative.

Utensils are fully distributed to the entire market of the country. The company is producing enough volume of the demanded products. These products are at their maturity stage. Plastic shoes are the only products in their declining stage. These products have neither local nor national demand. They are simply filling the stores of the company.

The stage of each product in local and international market is indicated in table 4-1

Figure 4.1-product life cycle analysis

Stage/ Product lifecycle	Introduction	Growth	Maturity	Decline
Local market		<ul style="list-style-type: none"> Leather shoes 	<ul style="list-style-type: none"> Working shoes Utensils 	<ul style="list-style-type: none"> Plastic shoes
International market		<ul style="list-style-type: none"> Working shoes 		
	Demand unknown	Demand>supply	Demand>supply	Demand<supply

4.4.2 Value chain analysis

This is the most crucial part of the internal analysis of the company because it critically analyzes each activity. Analyzing the activity of the company at each activity allows adding value for the product either by reducing the cost or increasing the quality of the product. The explanation of the activity of the company at each step of the product process follows.

4.4.2.1 Primary activity

Primary activity directly plays with the transformation of the products. In a very stage of primary activity the product is expected to add concrete value so as it can be transformed to the next stage. The extent of primary activity stretches from the purchasing of raw material up to providing finished product and receiving feedback from the customers.

- **Inbound logistics**

62% of the company's raw materials are imported from Europe and Saudi Arabia. Mr. Debesay explained, "Transportation is one of the big costs of our company. Our agency is traveling up to the host countries to run transaction process and all other transportation related activities. Each shoe company of Eritrea is repeating the same process". Mr. Debesay stated that the shoe industry in Asmara has not been successful in getting together to import the raw materials in bulk. This is because each factory is specialized in some area of production. As a result they need different types of raw materials. Dahlak shoe factory has no special supplier. It is not considered major customer, as it is buying small amount from big suppliers.

The second issue in the case of inbound logistics is the provision of quality products. The response from all the interviewees indicated, quality is most critical in creating value. The quality of the raw materials the tanneries receive influences the profitability of both the tanneries and the shoe manufacturing enterprises. Quality is the principal determinant of price. These customs are contributing to the deterioration of the quality of the raw material. Moreover, the tanneries are using absolute machines and old system to reserve and process the raw leather." Eritrean leather is adversely affecting the quality of the product. For this reason Mr. Debesay stated they are working together with the two major

tanneries and the Ministry of Agriculture to provide better quality leather. The Ministry of Agriculture is giving some veterinary lessons to the farmers.

- **Operation**

The company has five major products, namely, plastic shoes, leather shoes, plastic utensils, canvas working shoes, and granule. Each product has its own production process. Mr. Fray, the Production Manager of the company stated, “The Company is using the shortest production process possible and single product line for specific product. There is no room to cut the production process and each product line is specified for different product”. Though the factory is not working at its full capacity, the nature of the factory that is the function of the machinery does not allow them to mix one production line in to the other.

In order to assess whether and how the Dahlak Share Company operations are helping in the creation of value; operating profits, and sales are analyzed. These measures indicate whether the operating performance of an enterprise is improving or declining. As it is observed in the three financial year income statements in table 3-4, the loss is increasing from year to year. The operating results in table3-6, shows that sales has increased up to 1997 but decreased dramatically in 2001. The efforts of the company to search new market started increasing on 2002 but again declined in 2003. The operating income of the company was positive in 2001, 2002, and 2003. Due to the huge interest expense, it is operating at net loss during the three years.

Mr. Sequar the Marketing Manager of the company stated that most of the third world market is dominated by the low cost producers from Far East Asian countries.

It is very difficult to penetrate the market owned by such companies because they are enjoying the economies of scale. Mr. Debesay also added that those companies are a threat not only to the companies like Dahlak but also to all the recognized leather producers. Mr. Sequar added that the Chinese company use dumping in market competition, which is unfair. And the company could not influence the policy of other countries.

○ Investment and financing results

One can evaluate the condition of the company by analyzing the financial status of the company and the returns of the company in relation to the investments made to its operation. The data in the income statement and balance sheet in figures 3-4 and 3-7 are used to formulate some relevant financial calculations

Figure 4.2 performance ratios of Dahlak Share Company

Financial calculations/ year	2001	2002	2003
Liquidity ratio			
Current ratio	0.68	0.64	0.84
Quick ratio	0.062	(0.012)	(0.014)
Leverage ratio			
Debt to asset ratio	0.702	0.709	0.799
Debt to equity ratio	2.36	2.44	3.99
Long-term debt to equity ratio	0.80	0.63	0.64
Activity ratios			
Inventory turnover	1.33	1.67	0.75
Fixed asset turn over	0.57	0.90	0.72
Total assets turn over	0.38	0.52	0.39

Liquidity ratio

Liquidity ratio indicates the financial position of the company in relation to the obligation of its liability. Using this ratio the company owners may save their business from the risk that could be created from the shortage of short-term capital or working capital.

Current ratio measures the ability of the business to pay its current liabilities out of its current assets. In this case the current ratio is calculated to be 68% in 2001, 64% in 2002 and 84% in 2003. This means that when the bank is claiming for its money the company can only pay the stated portion of the liability using all of its current assets.

Quick ratio eliminates trading inventory from the current assets. The company uses only its cash and accounts receivable to pay its current liabilities. As we can see in the table the company's record was: 6.2% in 2001, 1.2% in 2002, and 1.4% in 2003.

Leverage ratio

Leverage ratio is used to analyze the source of businesses finance or investment. This helps to see how much portion of the company earning is going outside the company.

Debt to asset ratio measures the extent to which borrowed funds have been used to finance the firm's operations. Dahlak's debt to asset ratio was: 70.2% in 2001, 70.9% in 2002 and, 79.9% in 2003. Thus we can observe that more than 70% of the company's asset is bought by loan. The long-term debt to equity ratio also provides another measure of funds provided by creditors versus the funds provided by owners in the long-term capital structure. It was 80% in 2001, 63% in 2002 and 64% in 2003.

In general the company's capital is over flooded by the liability borrowed from the commercial bank of Eritrea. Mrs. Berhe, the Finance Manager strictly renounces the continuous borrowing of the company from the bank. She explained that at the moment with the absence of enough market the company is expected to divest its capital as much as possible and shift to other business. She added, "Though this is the general suggestion of the senior managers, the board (owners) are not willing to accept it". The good thing is that the banks do not pressure the company to refund the loan ahead of time.

Activity ratio

Activity ratio is used to analyze how well the company is doing in its operation. Inventory turnover indicates how many times total inventory was depleted and replaced

during the financial period. The inventory turnover of the company was 133% in 2001, 167 % in 2002, and 75% in 2003. Here while the store was never empty, the company replaced its inventory more than once in 2001 and 2002 but not even once in 2003.

Fixed asset turnover measures the sales productivity and utilization of plant and equipment. It was 57% in 2001, 90% in 2002, and 72% in 2003 for Dahlak Share Company. The total asset turnover to the company is 38% in 2001, 52% in 2002, and 39% in 2003. This indicates the utilization of the assets of the company.

The activity ratios indicate how well the company is doing using its resources. Though the total assets turn over and fixed asset turnover seem quite well, the inventory turnover is discouraging. According to table 4-2, the company did not replace its total inventory in the years 2001 and 2002. In 2003 Inventory was 75% of the annual sales. This means the sales was stagnant due to slow market.

• **Outbound logistics**

The stores of the company are the most organized and efficient. All the products are specified by type and their span of life in the company. Another great element of the outbound logistic is transportation to the final users.

The company does not have transportation problem to the local market. Its vehicles are enough to distribute its product in Asmara and other market areas. Mr. Debesay explained “there is no lag of time in taking our products to Eritrean markets. Either the businessmen will come and take their products or we transport the goods to their place using our vehicles”.

The company has some difficulties in sending their products to foreign Markets like Uganda. According to Mr. Debesay the problem with the foreign markets especially Uganda is the distance. The products must travel through the Red Sea to Mombassa (Somalia) by ship and use trucks to transport to destination. The transportation cost causes the price of the products in Uganda to increase.

- **Sales**

According to the table 3-9 in chapter three sales has increased for some products and decreased for others. The sales for plastic shoes and plastic utensils have almost been the same during three years. This is because these products are sold inside the country without tense competition. Working shoes increased tremendously in 2003 as compared to 2002. The market for these shoes is increasing. Leather shoes and granules decreased due to tense competition with local and international companies. As Mr. Debesay said, “unless the company changes the style or design of its product frequently, the products may not have enough market to sell”.

Synthetic shoes from China create heat. In Eritrea the weather is hot so that the customers prefer pure leather products. The general manager has confidence that they will regain their lost local market in a short period of time by employing good marketing experts.

Most of the senior managers are eager to increase the production yearly. However, it is wise to see the available market instead of suffering from huge inventory cost.

- **Services**

Mr. Debesay suggested, “Special service is not one of the great competition mechanisms in the shoe industry. For specific period warranty or guaranty may be important for fragile products like electronics. One can allow returning or repairing the broken or failed electronic goods. But it is difficult for us to return damaged shoes. One thing we can do is we accept returns before they are sold to the final user”. This shows that the company does not have special service to the customers.

4.4.2.2 Support activities

Support activity includes procurement, technology development, human resource development, and firm’s infrastructure.

The procurement system that Dahlak is using is not an advanced one. They use paper work and mail to make all the transaction process. With the starting of Internet access, the company has also e-mail access to communicate with the designers, suppliers and customers. However, it is not well organized like the EDI (Electronic Data Interchange) done in the advanced world. As the General Manager said, “the company’s plan is to use Internet intensively in the issues of product procurement, design procurement, and selling of products to customers”.

Though the machinery is old, the company is working to replace and introduce new machinery that makes it competitive with the local and international companies.

The administration office is giving its workers on the job training and uses job rotation. As Mr. Weldegebriel, the Administration Manager explained, “the technical workers of the company have almost all of the needed skills. For adequate educational background, only employees in the offices and designing department are working without rotation”. Dahlak Share Company is also run by highly structured organization equipped by well-organized leadership

4.4.3 SWOT analysis

A business might have its own strengths and weaknesses. The environment also releases threats and opportunities. The wise move of the high executives must be targeted to keep the strong resources and amend (heal) or avoid its weakness to exploit the opportunity and overcome the threat.

Based on the company’s records Dahlak Share Company has long time experience in shoe production. It is also equipped with highly trained experienced work force. The company owns adequate space for mass production. Above all the company’s strength lies in responsible, accountable, highly organized and excellent culture of management. The greatest of its strengths is its fame for its working shoes in Eritrea and other neighboring countries.

The company is looking at the great market opportunity in Uganda. Though this market seemed unsuccessful in the beginning, it is growing from time to time. As Mr. Debesay said, “the Company in Uganda serves as a base to the great lake countries”. Moreover the Eritrean customers are becoming aware of the low qualities of Chinese products.

Dahlak Share Company has some weaknesses to be avoided soon. Some machines are old that and useless in the production of new products. These machines are expensive and cannot be sold easily. Another weakness of the company is the financial constraint. The owners are not able to finance their business and as a result the company is suffering from huge interest cost.

Though the company is using the opportunity of the customers’ dislike for Chinese products, those companies are smart and are changing their designs from time to time. Hence Chinese companies pose as threat to Dahlak Share Company.

Based on the SWOT analysis matrix in the literature review regarding strengths, weakness, opportunity, and threat above, it is adequate to formulate the (Ambrosini, 1998) SWOT analysis matrix.

Some of the summarized environmental factors that affect the company are the following:

- The company is introducing its products to the international market.
- Introduction of foreign companies to the local market.
- Quality awareness of Eritrean customers.
- Shortening of the life cycle of shoe products.

Summarized company factors that influence or are influenced by the environmental situation are:

- Long time experience over shoe production whose workers are highly trained. Experienced on the type of shoes they are producing.
- Well-recognized name in Eritrea and neighboring countries.
- Responsible, accountable, highly organized with excellent culture of management team.

- Some machines are old and unfit of new products.
- The company is suffering from the huge amount of cost of capital due to borrowing finance.
- The continuous design change of the products

The impact analysis for Dahlak Share Company appears in table 4.3

Figure 4-3: SWOT analysis for Dahlak Share Company

Environmental change (opportunities and threats)	Joining to the global market	Introducing of global products to the local market	Quality awareness of the Eritrean customers	Shortening the lifecycle of the shoe products	+	-
Strength						
Long time experience	+2	+1	+1	-1	+4	-1
Well recognized name	0	+2	+2	0	+4	0
Excellent management team	+2	+1	+1	+1	+5	0
Weakness						
Old machinery	0	-2	-1	-3	0	-5
Cost of capital due to borrowing	-3	-1	0	0	0	-4
Lack of flexibility in design	0	-3	-2	-3	0	-8
Environmental impact scores	+4 -3	+4 -5	+4 -3	+1 -7	+13	-18

From the matrix it can be seen that the company is joining the global market and global companies are free to enter its previously protected local market. This pressures the company to play equal game with the international companies. With internal capability the company has scored some positive results. However, it can be concluded that there is

more to do to compete in local and international markets. That is, the company is in weaker position as compared to the competitive companies. The appropriate strategy for the company is recommended in the last part of the research.

4.5 Conclusion

The Ethio-Eritrea border conflict is the main current problem of Eritran enterprises. This affected the GDP growth, exchange rate stability, inflation and other investment factors adversely. However, establishment of infrastructure, the free competition policy of the Eritrean government are some of investment motivators. The analysis shows Eritrean Shoe companies suffering from the lack of enough market and big threat from international companies.

It can be clearly observed that Dahlak Share Company is underutilized. Simultaneously the financial analysis shows the company has been operating at loss in the past three consecutive years. The liquidity and leverage ratios show us the company is highly dependent on the borrowing capital. The activity ratio indicates the slowness of the market. In the end the SWOT analysis concludes that the company needs to come out from the threat by eliminating its weakness and foster on its strength.

Based on the discussion thus far the following chapters will discuss several strategic options for Dahlak Share Company.

Chapter five: Conclusion and recommendations

5.1 conclusion

Notwithstanding the adverse impact of the political and technological situation, Dahlak Share Company has tried to make more efforts by exploiting its internal capacity and taking advantage of the Eritrean culture as well as Eritrean rapidly developing infrastructure. The activities of the company in accordance with the normal anticipation are stated in this part of the paper.

The purpose of this research was to formulate an answer to the research questions of:

- What is the external situation of the company?
- What is the internal situation of the company?
- What is the best competitive strategy for the Dahlak shoe company?

In answer to the research question the following objectives are expected to reach their goals with the management having full information in making a decision.

- Evaluate the internal situation of the company.
- Evaluate the external situation of the company.
- Evaluate the effectiveness of the current strategy.

1. Provide further recommendation on the future strategy of the company

In light of these objectives the conclusion will follow.

5.1.1 Current strategy

The mission of the company is “production of quality footwear and related products at competitive prices and efficient marketing of the products in domestic and potential export market. In line with its mission, the objectives of Dahlak Share Company for five years from 2003 are to:

- Produce variety of quality and competitive leather shoe, working shoe, plastic shoes and plastic utensils.
- Expand the share of local market and diversify the export market.
- Improve the financial performance of the company.

Based on the company documents, the five years strategy, since 2003, of the Dahlak share company is:

- To explore potential market, which at least can serve to utilize the present capacity of the company.
- To add important strategies to minimize the expenses of the company by improving the distribution channels:
- To make strategic advertising and promotion.

5.1.2 Macro environment

Viewing the political, economic, social and economical factors that affect to the company macro environment analysis is done.

Though Eritrea is one of the first industrialized African countries, it did not show fast pace of industrial development. After the annexation of Eritrea by Ethiopia, the country's political situation has become worse from time to time. The severe problem to Dahlak Share Company is Ethio-Eritrea boarder conflict. Due to this devastating war, Dahlak Share Company has lost above 80% of its Ethiopian market. The diplomatic problem with other neighbor countries like Sudan also hindered the company's flexibility to search enough market. Generally we can say the present political situation in Eritrea is not motivating for Dahlak to expand its business.

To analyze the economic factors we looked at the main economic factors like GDP growth, inflation, and exchange rate. The GDP of Eritrea has grown at average of 7.4% from 1993- 1997. However its growth in 1999 was 0.3% and negative 11.9% in 2001. There is no any empirical record for GDP after 2001. But the worst is to come.

Inflation, which was traditionally low in Eritrea, during the war years (1998-2000), (end year to end year) averaged 15.5%, peaking at 26.8% in 2000. The inflation rate then started to come down, falling to an annual rate of 7.7% by the end of 2001. While there are no firm numbers yet available for inflation during 2002, 2003 and 2004 it is expected

still be in the double-digit range. Eritrea bank has established Eritrean new currency (Nakfa) in 1997. Until the conflict with Ethiopia the exchange rate was stable and equal with Ethiopian Birr. Though the government kept the exchange rate stable from 1998-2000, the black market has risen double that of the official market. The foreign exchange premium grew again during 2002 and was in the 60-70 percent range by October 2002. Currently the government of Eritrea is tightly controlling foreign currency.

The building and renovating of Air ports In Asmara and Massawa, Assab And Dahlak islands; rehabilitation of two major ports of Assab and Massawa; the renovation of highways in most part of the country; introduction of Internet service to the country; and the mobile phone service by telecommunication Eritrea are some of the recent great technological achievements of the country.

Though the current political and economic situation of the country is not motivating, the decent culture of the people of Eritrea and the great effort of Eritrea government toward infrastructure development, one can conclude Eritrea is a business-oriented country.

5.1.3 Microenvironment

Microenvironment analysis comprises the situation of the industry. There are about six major shoe companies in Eritrea. Only Deluxe Shoe Company produces the same product as Dahlak. However Deluxe is suffering from shortage of capital. The diversified business of Dahlak Share Company enables it to have adequate working capital to operate during this crisis period. Further major rivals are companies from China. These companies have attractive and fashionable design but are big threat to Dahlak Share Company.

About 80% of the shoes produced in Eritrea were exported to Ethiopia. The border conflict with Ethiopia adversely affected the shoe making business. The companies do not have enough market. Though most of the shoe companies prefer to liquidate, it is difficult to exit from that business. As the result we can say there is big threat of new entrants.

The main substitutes of Dahlak shoes are products of Deluxe shoe and international shoe products. The domestically produced leather products only account for 35% of the domestic leather shoe market. This shows us that about 65% of leather products are imported. We can conclude therefore that there is big threat from substitutes.

Both domestic and foreign suppliers of Dahlak Shoe Company do not consider it as their major customer. Moreover, these companies are big with monopolistic power. This reduces the bargaining power of the company. Moreover, there is no other company which likes to buy its raw material from the company. For these reasons the company is in great need of suppliers.

Due to the pressure of the leather market from abroad, there is tense competition in the shoe industry market. The customers have broad alternative to choose from different products. It is also very cheap for the customers to change from one brand to the other. This made the bargaining power of the competitors very great.

As it can be understood from most of the interviewees the key success factors of the shoe making company is modern and advanced machinery, and skilled human power to produce better quality products. Dahlak Shoe Company is continually renewing and upgrading its machinery and training its employees through job rotation. The company's plan is to open big training center in agreement with the Ministry of Education.

5.1.4 Company Resources analysis

Shoe products are developing from in a faster pace (internet 2). The designs of shoes are changing very frequently. Currently shoe production activity needs minimum cost production in each activity of the value chain.

More than 60% of the raw materials are imported from foreign and almost all the rest of the raw materials are bought from the Red Sea tannery. The transportation cost is expensive for they are ordering small quantity. And the quality of the leather is poor for

the farmers lack scientific knowledge in treating their cattle. Generally the company is operating under capacity. For this reasons it is operating at loss of (1,224,848Nakfa) in 2001, (332,086) in 2002, and (1,837,149) in 2003.

Next to the market the main problem of the company is the financing. The company's equity is financed 80 % in 2001, 63% in 2002 and 64% in 2003 by borrowing. Storing is well organized and the most effective part of the company. The way to Uganda is quite long and the products may get delayed to reach the final user. The greatest current problem of the company is marketing. The Ethiopian market has to be substituted with local and international market. This forced the company to join the international market and work in intensive local competition.

As indicated in the SWOT analysis the company has its own strengths and weaknesses to tackle with the positive and negative situations enforced by the environment. At present the company is penetrating into the international market and foreign companies are penetrating into the local market; Eritrean customers are aware of the quality products. The life cycle of the products is also very short. These are some of the main environmental factors that affect the situation of the company. The company has long time experience over shoe production whose workers are highly trained and experienced on the type of shoes they are producing. Dahlak share company has Well-recognized name in Eritrea and neighboring countries.

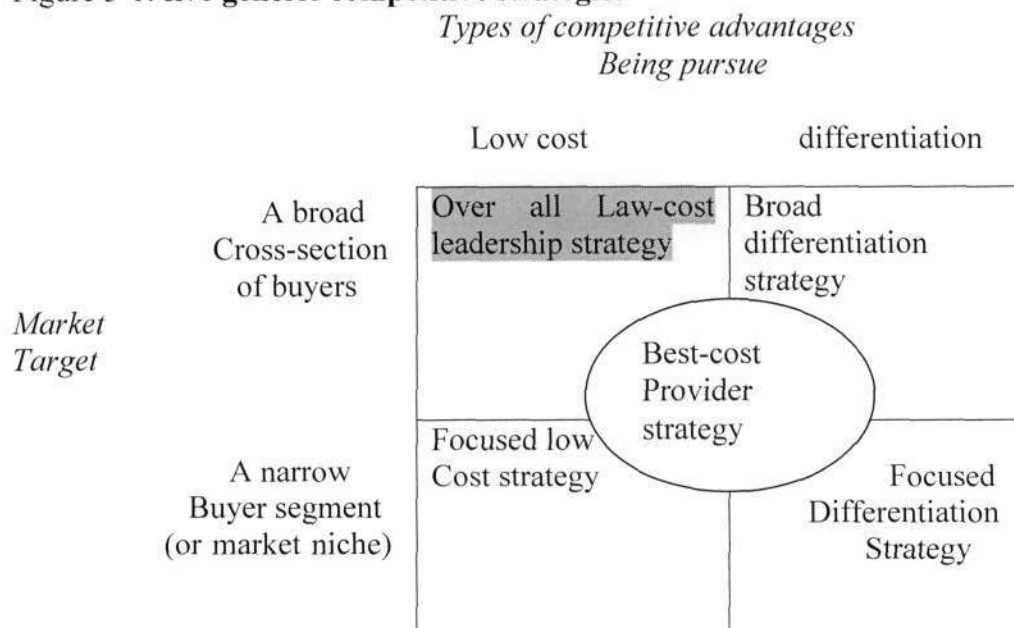
5.2 Recommendations

Having seen the conclusion the recommendation is that Dahlak Share Company chooses the best strategy from the grand strategies to attain the needed generic strategy.

5.2.1 Five generic competitive strategies

Dahlak Share Company does not have special skill like design, and quality raw materials to compete with highly advanced companies by producing differentiated products. However, the labor cost in Eritrea is very cheap and has transportation and tax advantage over the potential foreign competitors. As the result the best strategy for the company is overall cost leadership strategy (the shaded area indicated in the figure 5.1). The company must minimize its cost in all directions and gain more profit than the competitors or it can sell its products at cheaper prices but with equal profit with the competitors.

Figure 5-1: **five generic competitive strategies**



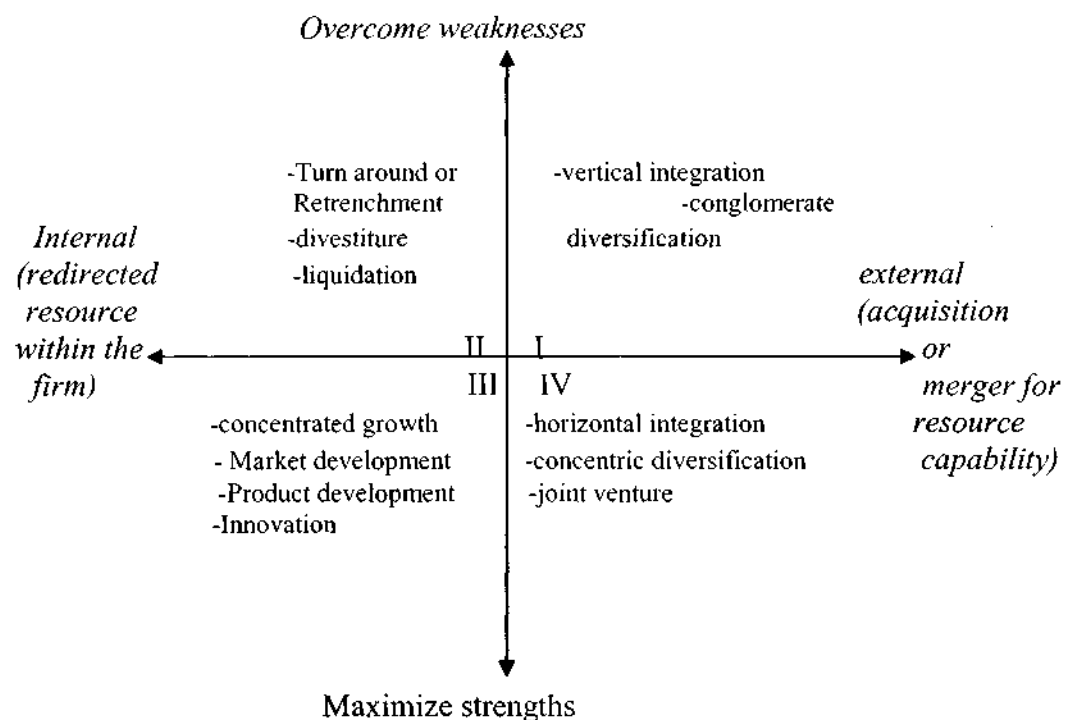
Source:

Thompson, A., and Strickland. A. (2003), *Advanced Strategic Management: concept and case*, 13th Edition, McGraw-Hill, Irwin (P.151)

5.2.2 Grand strategies

More than half of the company capital is financed from borrowing. Some machines are idle, and apparently some workers are idle. Dahlak Share Company is suffering from internal problems that can be solved very easily. There fore, the company's situation falls on quadrant II in figure 5-2. It can solve these problems just by restructuring its internal resources. From the grand strategies listed in figure 5-2, turn around in all value chain activities, and divestiture obsolescent machinery is vital.

Figure 5-2 grand strategy matrix based on the company capacity



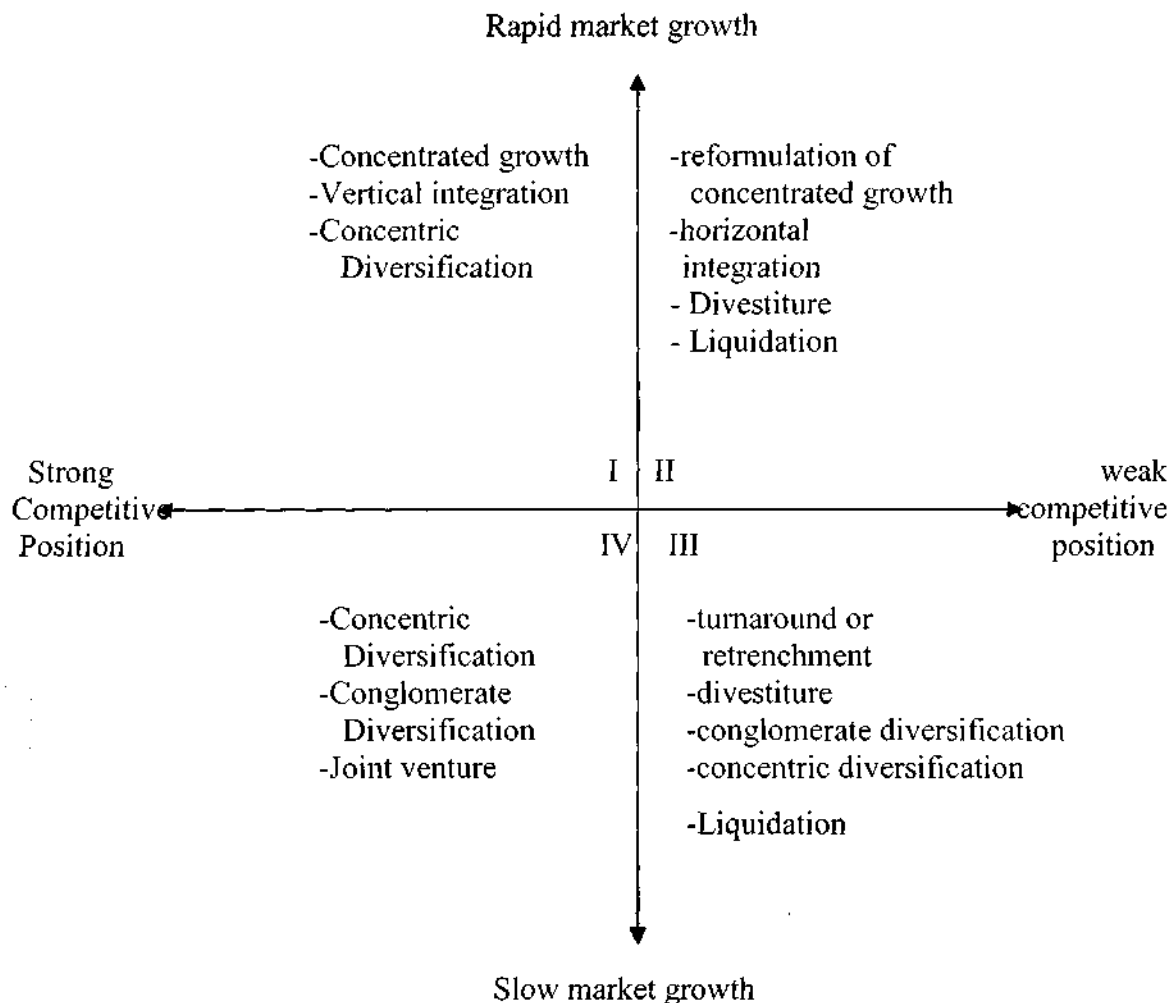
Source:

Pears & Robinson (1997), Formulation, Implementation, & Control of Competitive Strategy, 6th edition, McGraw-Hill, Irwin. (P.265)

Market opportunity is a big factor in shaping strategy. The main problem of Dahlak Share Company is the market problem. It is therefore wise to foresee the strategy in relation to the future development of the market. Though the local market is growing, all the local companies are competing in this small market. Looking in the foreign market, the company is penetrating slowly. There fore, the company can be clearly positioned in

Quadrant III in figure 5-3. Money is important in winning the foreign market competition. This calls for reducing each and every slack in the cost of production, transportation and other activities. Turn around and retrenchment of excess manpower and divestiture of some machinery is advisable

Figure 5-3 grand strategy matrix based on the market growth



Source:

Pears & Robinson (1997), Formulation, Implementation, & Control of Competitive Strategy, 6th edition, McGraw-Hill, Irwin. (P.267).

5.2.3 Important strategic activities in value chain

To achieve the cost advantage, Dahlak's cumulative costs across its value chain must be lower than that of the competitor. The main activities that the company must carry out to correct the problem from suppliers are:

- Improved animal husbandry by ensuring improved conditions for raising animals; by creating the appropriate condition so that hides are recovered in good state; and by ensuring that care taken in transportation can improve quality and increase sales.
- The long time engagement of the company in the working shoe production will give it an advantage of learning curve. The company must keep and develop its experience in production and marketing.
- The company's products price depends in part on what it has to pay on key resource inputs. Dahlak Share Company can make agreement with other local shoe companies to buy the chemicals from foreign market and leather from local market. Though these companies are demanding different types of chemicals, all the inputs can be found in a single chemical company. The same holds true with the leather produced inside the country. As the shoe companies get together they could have greater bargaining power and the cost of raw materials can be reduced. The company also must work with the tanneries and the farmers to improve the quality of the hides and leather produced. As the Dahlak shoe company executive manager was the former Red Sea Tannery manager, he must closely collaborate with the Red Sea Tannery to identify mutual cost saving experience.
- Capacity utilization is big cost driver. Dahlak Share Company is producing under its capacity. The company needs to revamp the excess capacity by selling the excess machinery and retrench the excess manpower. As the time of the company's market growth, new machinery can be installed for new production.
- Simplifying and upgrade the product design using computer assisted design techniques, the company can reduce the unnecessary parts of the design, standardize some parts of the components and design products to be easy to manufacture.

- At present, computer is the major instrument in all sorts of business. Dahlak Share Company must introduce the EDI (Electronic Data Interchange System) with all of its suppliers and customers. This will enable the company to compare the price, the quality stock level, and other issues of the raw materials from different suppliers including the stock level and demand of its customers. Moreover, the company can make the majority of procurement and marketing process using the computer system.
- Because transportation system to the Great Lakes countries is not effective Dahlak Shoe Company must negotiate better transportation systems. An Eritrean airline is one of the cheap and fast transportation systems to Kenya.
- Trying to move some parts of the machinery to Uganda will save the company all the transportation cost from Eritrea to Uganda.

5.3 Summary

Shoe production is one of the great industrial sectors in Eritrea. Most of the shoe companies in Eritrea used to sell their products in local and Ethiopian markets. Since 1998, due to the border conflict, the shoe companies have lost more than 80% of Ethiopian market. More over, foreign companies started to join the Eritrea market, and Eritrean companies joined the international market. Dahlak Shoe Company had to look for enough market for its production. The company needs to revise and improve its strategy.

The border conflict with Ethiopia, and the economic instability of the country are adversely affecting the business sectors in Eritrea. However the concrete activities of Eritrean government on the building and improvement of the infrastructure is promising for future investment. Dahlak Share Company is competing with local and international companies. As this study attempted to explain, Dahlak Share Company has some weaknesses in upgrading the quality of its products and the skill of the employees to the level of competitive companies. Moreover, the company is suffering from lack of adequate capital. Yet the company is looking for great market opportunity on the Great

Lake African countries. The customers in Eritrea are also able to differentiate between leather products and the synthetic international companies' products.

Considering the internal and external situation of the company it is recommended that Dahlak Share Company to follow "over all low-cost leas ship" generic strategy, by revamping unnecessary costs and improving the quality in all over value chain of the company. Retrenchment and divestiture old machinery and ineffective labor is also recommended.

APPENDIX

Interviews

This study is being carried out with the objective of gathering information regarding the internal situation, external situation and present strategy of Dahlak Shoe Company, by Tesfayohannes Tekeste in partial fulfillment of an academic achievement in masters of Business administration at the University of Natal Durban. It would be greatly appreciated if the following questionnaire could be answered. Please remember that every statement of the interview will remain confidential.

General Manager (Mr. Debesay)

1. How do you evaluate the need of strategy to the success of the company?
2. What are the vision, mission, and objectives of Dahlak Shoe Company?
3. What strategy does the company use to meet the stated objectives?
4. To what extent is the strategy of the company clear to all levels of management?
5. Do you meet the stated objectives? What are the main reasons?
6. To what extent do the departments harmonize to meet the stated objectives?
7. Which companies are your main rivals in the country and outside of the country?
How do you rate your company in comparison to them?
8. What strategic agreement do you have with your competitors?
9. What is the influence of the Eritrean infrastructure on the business of the company? Like transport, communication, financial institutions, courts and so on?
10. What encouragements did the government of Eritrea give to your company? Like tax cut, protection from foreign companies' monopoly...
11. Is there new opportunity that comes with the presence of Internet access and the Eritrean airlines?
12. How does the political situation of Eritrea and Ethiopia influence your business?
How do you expect the progress of this situation in the future?

Finance Department (Mrs. Berhe)

- What are the main activities of the finance department?
- What are the performance evaluation tools in the company?
 - Net income after interest and tax
 - Profit before interest
 - Earning per share
 - Return on total assets
 - Return on equity
 - Return on capital employed
- Is the financial position of your market satisfactory?
- Do you see any activity that could help the company in the future?

Marketing Department (Mr. Sequar)

- What are the main activities of the marketing department of the company?
- Who are your customers? Which type of segment are you focusing on?
- Where do you get the raw materials to make the finished products?
- Where do you sell your finished products?
- Any agreement with suppliers and distributors?
- How do your customers evaluate your product? Are they satisfied?
- Do you expect the shoe making business may attract new companies?
Why/why not?
- What service do you give to retain your customers? Like transportation, warranty, or guaranty on products?
- Do you see any activity that could help the company in the future?

Production Department (Mr. Fray)

- What type of products do you produce? How many product lines are available in your company?
- How is the design and style of your products in relation to the local and international competitive products?
- How much of your capacity is operating? What is the reason?
- If any improvement or invention is done in your production after privatization?
- What is the core competence of the company?
- What do you think customers will use if they do not have your product?
(Substitutes)
- Do you see any activity that could help the company in the future?

Human Resources Department (Mr. Weldegebriel)

- How does the company make employee selection and recruitment process?
- On what basis are employees promoted?
- How does the company handle the development of its workers?
- Does the company employ an incentive scheme? What type of incentive do you use?
- What communication channel is used to update and receive comments from employees?
- How far do you think the understanding of the members of the organization towards effects of the action and decisions to increase the value of the company?
- Do you see any activity that could help the company in the future?

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Interviewees

1. *Mr. Debesay, Kalaab Netseraab*, General manager of Dahlak Share Company.
2. *Mr. Weldegebriel, weldu Haile*, Administration manager Dahlak Share Company.
3. *Mr. Sequar, Taamrat Tewelde*, Marketing manager Dahlak Share Company.
4. *Mr. Fray, Ghebre Meles*, Production manger Dahlak Share Company.
5. *Mrs. Berhe, Freweyni Ghebreyesus*, finance manger of Dahlak Share Company