

# [Analysis bargaining power of buyers commerce essay](https://assignbuster.com/analysis-bargaining-power-of-buyers-commerce-essay/)

Tile industry in Pakistan has 4-5 major players namely Shabbir Tiles, Master Tiles, Karam Tiles and National Tiles. The market comprises of urbanized and semi-urbanized population which is huge market for these players to cater to. The GDP growth rate however it is not appreciable but it suggest that the market will further increase by the GDP growth rate. With the presence of this huge market every company in the tile industry large number of customers.

Tile industry is also rapidly capturing the marble floor users because marble-tiled floors require polishing in the facility where they are places and this is additional cost that marble flooring requires over tile flooring. Although comparing marble tile with respect to quality and functionality it enjoys the benefits that include durability, aesthetics, hardness, higher abrasion resistance and better water resistance than other tiles no matter how hard a tile is.

Tiles as a product would lie in the high involvement consumer buying behavior because buyers require a lot of information as they are not in a habit to purchase it as the need arises when a new residence or office is built or the old tiles are after a long life are now in a bad order and needs to be replaced. Buyers are well aware that they have to make the decision after careful and keen selection and this is why their behavior is variety seeking.

Price except for luxury product matters in every product, but as the buying behavior is not of frequent in nature and the buyers are not well informed about the price change occurring in the market therefore the market is not price sensitive

Marketing efforts in the Tile industry are not up to the mark and most of the companies are only selling their products on corporate branding basis. But their corporate brand image is strong enough to clearly differentiate itself with others.

Since the tile market includes urbanized and semi urbanized population of the country it can be assumed that the customers are profitable.

All these factors make bargaining power of buyers extremely low. This can be explained with the help of Template on Bargaining Power of buyers which follows next. Template on Bargaining Power of BuyerEffect of Macro Environment on Bargaining Power of Buyers – PEST Effect

## Political

No apparent affect

## Economic

Due to double digit inflation in the country there has been a huge impact on the demand of the every commodity other consumer packaged goods. Ceramic tiles industry dependent on construction industry is also a victim of the high inflation in the country and their demand has also declined to some extent. This fact is evident from the past trend from which it can be observed that demand has become comparatively slower as compared to previous years. Since most of the tiles customers are industries, the recession has led the trend of construction downwards. Hence the buyers are negatively affected by this economic condition.

## Social

Social Trends favors the industry as the population of the country is mainly status conscious and are concerned with the material benefits greatly. Since Tiles as a trend is in the focus the buyers have no choice rather than to go with the trend and this benefits the Tiles industry in general.

## Technology

The customer expects the companies in the industry to provide them with the latest designs, colors and patterns for better customer satisfaction and this requires the latest technology to keep them updated with the trends. There are imported tiles in the market which give buyers a variety to select which somewhat increases the bargaining power of buyers.

## Threat of New Entrants

The Fixed cost in the Tile Industry accounts for 50%-80% of the Total Cost. Per unit cost declines with every additional unit produced. Economies of scale production can significantly benefit in cost saving and this clarifies that large firms have a cost advantage.

There is huge potential in the industry for marketing efforts. It has also mentioned earlier that the companies existing in the industry are merely capitalizing on corporate brand image and there is no efforts done to create brands for different tile products or its variants. However the existing corporate image also differentiates companies with each other but with product branding or product variants branding companies can command premium and can increase customer lifetime equity.

Every industry has its own dynamics. Some industries are capital intensive and some are not. Some industries are labor intensive and for some industries to survival are dependent on continuous technological change. Tile Industry is not capital intensive nor requires hi-fi technology. In Pakistan not much automation is done in this industry and the startup cost is for the Tile industry is also not quite high.

Serviceable Equipment is expensive because due to the political situation in Pakistan Plant and Machinery providers are not willing to come to provide after sales services, even they are reluctant to come for installation of the Plant and machinery.

Since the market is big enough and there is a potential that new comers can be accommodated there will be no retaliation from the existing players towards the new entrants and there will be no hurdles to secure distribution channels or sources of supply new entrant may not face any difficulty entering the industry.

## PEST

## Political

No restrictions as such are imposed by the government on the ceramic manufacturers but the regular inspection and interference by the government officials on the processes of the companies is an obstacle for the manufacturers. Hence, the new comers to this industry will face unnecessary interference by the government.

There no such product differences in this industry and relatively, they will not have many problems in obtaining skilled people, materials or supplies. Hence, there will not be any legal barriers at the time of entry but government inspection is a challenge for the new comers.

## Economic

Increasing inflation and increasing fuel cost in the country greatly impacts the Tiles Industry. Fuel Cost comprises of major proportion in the total cost of production of Tiles and this is why this has a direct impact on overall cost of production and this factor is not only vulnerable for the existing players but also potential obstruction for new comers. The magnitude factor cannot be insignificant or of low importance.

## Social

Growing population and increasing shift towards urbanization makes the industry potentially attractive and there are not much competition in the industry so social factor is pulling Threat of New Entrants towards high however the magnitude of pull effect towards high cannot be higher because lower competition are not only factors to induce New Entry.

## Technology

There is a slow growth in the technology required for the production of ceramic products. The invention of new, improved and higher productive capacities of new machines tend to create unconventional barriers but being a labor intensive industry it is slow paced. They are unskilled and not readily accepting the new processing techniques and programming logics.

The industry in concern is the Ceramic Tiles Industry. Buyer has variety of substitutes available that include marble tiles, granite tiles and mosaic (out dated). Marble flooring and Granite flooring are better alternates to Tiles (ceramics) and they are also expensive than Ceramics Tiles. Marble flooring is durable and enjoys aesthetics as well but it requires to be polished with in the facility where they have to be floored, but it is better alternate in performance in functionality than Tiles on the attribute that include: low or no water absorbing and has low abrasion rate. Granite Tiles are also a good alternate but they is also expensive than Ceramic Tiles and they more share other dynamics of marble tiles.

These substitutes are real and buyers can substitute them with ceramic Tiles however it has also been observed that trend is towards ceramic tiles and people are moving away from marble and granite flooring. This analysis shows that threat of substitute is high. It can also explain with the help of Template.

## Template for Threat of Substitutes

## PEST

## Political

No apparent affect

## Economic

Inflation and lower GDP growth rates indicate that prices of the alternates matter. This benefits the cheaper alternate which is ceramic tiles. Ceramic Tiles cost lesser than marble and granite and another important point is that Ceramic Tiles do not require polishing.

## Social

Nowadays aesthetics have become extremely important for the customers. They demand for designs and convenience in maintenance of their floor. Ceramic Tiles are comparatively cheaper and easy to maintain than Marble and Granite. Granites and marble both are well liked by buyers on the basis aesthetics as the aesthetics are natural however tiles are also aesthetically designed and are no less than in aesthetics to their comparable alternates. There is also a shift from marble tiles to ceramic tiles as well therefore the magnitude of this force is very low on the low side

## Technological

With the constant advancement in technology, new methods and equipments are being introduced in ceramic manufacturing. Hence, the company needs to update according to the trends in the industry keeping in view both local and international markets.

P

E

S

T

Low Medium High

## Overall Picture of Threat of Substitutes

L(1) M H(10)

## Bargaining Power of Suppliers

The Inputs required for ceramic tiles manufacturing include clay and chemicals. These inputs are of standard quality in nature. National Tiles are also using standard inputs. There are no complications in procurement of these inputs, a lot of potential suppliers are available and suppliers can be switched easily. The Nature input suppliers is such that they are doing their businesses on short to medium scale and this clarifies that suppliers are not in a position to enter into the Tile Industry’s business. For these suppliers, the companies in the Tile Industry are their important customers because there are not many companies in the Tile Industry, hardly 5-6 major players, this makes customer base scarce for the suppliers. The suppliers have to maintain good relations with these companies in order to remain profitable.

Costs of Purchases of these inputs are relatively a small portion of the overall cost as the major portion of the cost is on overheads which include consumption power and gas. This all sums up and the analysis implies that the bargaining power of suppliers is low.

## Template for Bargaining Power of Supplier

## PEST

## Political

The law and order situation in the country is a problem for the suppliers as companies acquire the raw material from mines in the northern areas of the country. The unstable political conditions become a barrier for the suppliers to provide the manufacturers with raw material on time and in proper condition.

## Economic

Inflation may cause increase in cost of raw material, but there are not a lot of companies in the market therefore the suppliers have a low bargaining power as the cost of purchase does not merely depends on the raw material but even other overheads which form a constituent portion of the cost of material in manufacturing tiles and ceramics.

## Social

No apparent affect

## Technological

No apparent affect

## Rivalry among Competitors

Tile industry growth is linked with the construction industry. GDP growth rate can give an idea about the growth rate of any industry in an economy of a country. Since the GDP growth rate in the past oscillated around only 2. 5-3%, the growth of Tile Industry cannot be rapid because the industry itself is in the early stage of maturity.

It has also been stated previously that fixed costs in industry is around 50-80% so it covers the major portion of the total cost. Product differences are significant in the Tile industry. National Tiles are known for their durable tiles most suited for the industrial sector of the industry whereas Master Tiles are popular for their aesthetic quality.

National Tiles Limited focuses on one attribute and specialized in it which is durability and hardness whereas other players of the industry are well diversified.

Alternates to Tiles (ceramics) are expensive and they also require other cost to be incurred like marble requires polishing so there is presence of switching cost.

The competitors are of much bigger size than National Tiles. National Tiles production is 2000 meters per day whereas all the other competitors are producing within the range of 15000-2000 meters per day which is many times greater than the production of National Tiles. One reason of National Tiles having low production output and still performing well on the industry is that the customers of National Tiles are Industrial and Commercial Users whereas the customers of the competitors are mainly residential users.

## Economic

Most of the foreign companies are not willing to make investment in Pakistan due to the law and order situation in the country. This inversely affected the businesses in the country but at the same time it is opportunity for the local manufacturers to flourish as they van expect that they are not going to have competition from a Global Company coming to Pakistan,

## Social

People are seeking aesthetics in the tiles and the companies that are good at designing the Tile can save themselves from the rivalry from the competitors.

## Technological

The industry is labor intensive more than capital intensive. With huge and modern technology, companies in the industry can compete on the basis of modernized technology in which they have invested but a huge portion of manufacturing tiles depend on the number of labor. Therefore more than technology, the industry is dependent on the labor efficiency.

## Overall Picture of RivalryOpportunities and Threats

OPPORTUNITIES

THREATS

Declining rural population due to improved living conditions, however 63. 8% of Pakistan’s population still lives in rural areas which remains an un-tapped market

Supply of power and gas remain the key cost- related issues that impact the industry

Low rivalry among competitors in industrial tile sector

No incentives from the government to improve competitiveness of the industry i. e., tax-free zones, subsidy, and continuous power supply etc.

Abundant availability of cheap labor (15. 6% of total labor force has primary education only)

Due to lower import tariffs, local producers are finding it difficult to compete with Chinese tile imports

Demand growing for different designs and variety in tiles by people who are in the category of upper middle & upper income group

T he tile industry is highly dependent on the construction industry therefore the dynamics of construction industry also effects Tile Industry

Large surplus capacities in the international markets

## EFE Matrix

## Competitive Profile Matrix -CPM

## a. Value Chain Analysis

## Primary Activities:

## Inbound Activities:

About 60% input materials are produced by National Tiles itself which includes ceramic colors and other materials where as 40% input materials for manufacturing tiles are purchased from ‘ Mian-Waali’ and ‘ Saree’ area of Pakistan which includes minerals (chemicals) and clay. The company is not heavily relying on its suppliers to provide them the whole material rather it prefers to have modest vertical integration which is a competitive edge for the company.

## Operations:

The Operational activities of National Tiles Limited are aligned with the quality conformance. German technology is used in the process of manufacturing tiles which assures the specification conformance of the Tile. Plant in Nooriabad operates with the capacity of 2000 meter per day, currently company plans to expand its production capacity from 2000 to 4000 meter per day, for which they are setting up a separate plant.

The Process of Manufacturing tiles at NTCL consist of following activities:

## Slip Preparing & Glaze Making

For the slip preparation the raw materials are mixed up with water as per the requirement. Proper composition along with the sufficient amount of water then gets loaded to the all mills for grinding

## Casting and Drying

Slip is cast into plaster moulds, due to absorption of water the surface becomes thick with time then the tiles are dried to a low water content to increase the strength of body, which is called drying.

## Glazing

Then tile is brought for glazing which involves smoothing the surface of the tile to give it a glassy shape.

## Firing

Then the tile is brought for firing in kiln, as a result the bodies will take place a series of physical and chemical reactions, and will take a fixed shape.

## Inspection, repairing, Re-firing & packing

As a final step, NTCL inspect the finished products to check its conformance to the quality and then sent for final packing, in case a big portion of tile is out of specifications, the tile is repaired and re-fired.

## Outbound Activities:

About 90% distribution is done by National tiles itself, and they are engaged in forward integration that doesn’t make them rely on others to distribute their product, in fact national tiles believes that they are doing well than others in distribution area because it is well designed by their expert people which doesn’t leave any major weakness that may cause delay in availability of the product to the customers. Since industries are their main customers whom they directly supply the tiles at the place where the tile is required to be floored. The major portion of their sales is in Karachi so distribution is not very wide since most of the industries are located in Karachi where as they also supply tiles to the industries in Punjab mainly in Faisalabad.

## Marketing and Sales:

Marketing is done mainly through Personal Relationship (PR) and company contacts. This is necessary as 90% of the sales are done directly through the company showrooms, only about 10% of the sales are through the involvements of intermediaries or dealers. The company has developed good PR relationship overtime with the customers and potential customers. National Tiles Limited is not involved other marketing activities but still the corporate image has earned good name and goodwill for the company.

With the help of the sales team of the company the company has negotiated and signed a contract with Pakistan State Oil for decorating all the petrol stations’ flooring with National Tiles. Secondly the company has been able to successfully execute the contract with CDGK to decorate Karachi city. For this purpose National Tiles were used at the beach strip pavements and sitting areas at Sea View as well to decorate the underpass at Clifton.

## Supporting Activities:

## National Tiles – Head Office, Factory and Showrooms:

NTCL is a public limited company and the sole manufacturer of Extruded Vitrified Split Tiles. The company factory is situated 80 km from super highway near Nooriabad which makes it easier to procure and transport the required raw materials. Also it provides the opportunity of expansion if required in future as this area has many empty plots still available.

NTCL has strategically placed its head office at 8th floor, Al-Sehat Center, Annexe Regent Plaza Hotel, Rafiqui Shaheed Road, Karachi. This helps them to be situated at a place which is easily reachable. Furthermore, being near to a luxury hotel makes it easier to meet technical experts from abroad.

The company has more than 80 dealers who take care of the sales and distribution of tiles throughout the country. Since the sales efforts are done directly by the company, to cater to this purpose they have established showrooms in all the major cities like Karachi, Faisalabad, Lahore, etc. These offices showcase all the product samples, color catalogues and designs for the customers to observe, choose and order from.

The company has 6 national offices in Lahore, Islamabad, Peshawar, Faisalabad, Multan and Hyderabad to help sales throughout Pakistan. Their main sales and display center for Karachi city is in saddar behind Hotel Metropole while sales outlet is in Golimar, Ghousia Colony.

Management at National Tiles has plans to appoint dealers in international market like Gulf States, Singapore, Malaysia & Bangladesh and other such regions. At the moment they are exporting split tiles to UAE through direct sales for specific projects, however the quantity is very low.

## Material Procurement – Local and Imported:

NTCL procures 40% of raw material from the local market while the remaining 60% of raw material is manufactured by them at their factory plant through crushing of stones. They buy ‘ clay’, which is one of the main components for the tile body, from Mianwaali and Saree.

Previously the company used to buy chemicals and dyes from imported chemicals’ market in sadder. The suppliers till present remain unfixed as the chemicals are procured from suppliers in the open market.

Next they would test them in their laboratories before usage in their production process. This was done in order to check if the chemicals are of the same consistency and purity levels or not as is required by the tile formula they implement.

Presently the company’s R&D has made them self sufficient in dye production. This has also helped in reducing the procurement cost as the dyes were an expensive material due to import duties, etc.

At the time of company’s starting years approximately 80% of the total material used to be imported, however the company has progressed and brought this figure down to about 20% of total material procurement.

## Use Of Technology:

National Tiles are the sole user of German technology in their manufacturing plant in Nooriabad. They started their operation with the technical collaboration of M/s. Agrob Anlagenbau GmbH, Germany. They have best machineries from China and Germany to crush stones to make dust and clay. They have plans to establish another plant with automated machineries. For technical assistance they have local engineers who have skills to work with heavy machineries operated in NTCL.

Another aspect of technological development at National Tiles is the usage of Split Technology for the tile manufacturing. This enables the production of two tiles in the one cycle thus reducing the cost of separate production.

Furthermore, the company under consideration is the only one in Pakistan to make vitrified tiles which sustain harsh weather conditions and many other tests of abrasion and durability. This is made possible through firing them at very high temperature (approximately 1180oC) in a ‘ kiln’ which is operated 24 hours.

## Management and Employees – building a strategic asset:

National Tiles maintains stringent policy to recruit new employees. The recruitment and selection process is practiced internally. New selection for vacant position is done after interviews and inspection of past experience as well as academic records.

The total workforce appointed by the company is approximately 300 people. Out of this total, about 200 workers are assigned to the factory and the production process while 80 employees fall under the head of marketing and sales. All the employees are professionally trained as per the company requirements.

Executive Management of NTCL comprises of:

Agha Tajammul Hussain (Chairman & Managing Director)

Agha Tahir Hussain (Deputy Manageing Director)

Agha Babar Hussain (Director Production)

Agha Afsar Hussaib (Director)

Agha Athar Hussain (Director)

Mrs. Niaz Fatima (Director)

Mrs. Shafiq Fatima (Director)

Agha Mustafa Hussain (Director Sales & Managing)

Agha Murtaza Hussain (Director)

## c. Trend of Key Financial Ratios

Financial Ratio Measures the financial health of a company and gives a quick picture of firm’s strengths and weaknesses lied in operating, investing and financing activities. These financial indicators are quite helpful while formulating the strategy.

NTCL’s financial position and performance is very surprising as indicated by each ratio in each year because the trend of almost all ratios is not consistent in all 3 years.

## INDICATORS TO LIQUIDITY:

## Current Ratio:

Company’s ability to meet the short term obligations is declining over the last 3 years, which is negative sign for the company’s short term creditors; company is consistently falling short of liquid asset to pay the amount due from the creditors which may cause company to lose its short term credit borrowing for its operating activities.

## Quick Ratio:

In year 2008, company is having only 30% of the easily cash convertible assets to pay the liabilities which are almost 3 times of the most liquid assets this ability further goes down in year 2009 and recovering slightly in 2010. The difference between quick and current ratios shows that in year 2009 and 2010 the company is keeping adequate inventory which is not supposed to be easily cash convertible this may cause uneasy feeling to short term creditors/supplier to lend material to the company on credit.

## INDICATORS TO PROFITABILITY

## Gross Profit:

Gross profit margin shows that on average 82% is the cost of goods sold over the period of 3 years, gross margins of the company are very inconsistence due to slight decline in the sales and slight increase in cost of goods sold that reflects declining efficiency in the operational cost management.

## Operating Profit:

For first two years the operating margin is having increasing trend that shows the company is able to reduce its operating activities expenses but margins goes for very down in the 2010 that shows inconsistency in managing operating activities expenses.

## Net Profit Margin:

As compared to last two years 2008 and 2009, margins have declined in 2010 due decrease in the sales of the company that declined the net profit margins which were increased in last year.

## Return on Asset:

Assets invested in the company are not getting up to the mark return except a little return in 2009 and again decline in 2010.

Overall profitability ratios are marginally affected by declining in 2010 after some increase in 2009 as compared to 2008.

## INDICATORS TO SOLVENCY:

## Debt Ratio:

Due to heavy losses in past years company has substantial accumulated losses in 2008, that could cause company to lose its equity which made them to go for more long term debt in year 2009 and 2010, and according to company’s policy directors can invest in giving interest free unsecured loan to company in case of any crises so that company should not be fall short of funds for any expansion.

## Times Interest Earned:

The company’s ability to pay interest from its EBIT has increased in year 2009 the ratio increases because of increase in the sales that increased EBIT but this ratio goes down again in 2010 due to decline in sales thus this inconsistency would give red signal to external debt holders (other than directors of company) to avoid lending money to the company.

## INDICATORS TO ASSET MANAGEMENT:

## Inventory Turnover:

On average company is able to convert inventory into sales 1. 94 times in a year in 2008 and this trend is more or less maintained in next two years 2009 and 2010 this performance very slow but consistent over 3 years.

## Total Asset Turn Over:

On average in all 3 years the assets generate about a half unit sales per unit and this trend is declining over last 3 years which indicated the inefficiency of assets to generate reasonable per unit sales.

## INDICATORS TO SHARE HOLDERS:

Due to small amount of income in 2008 EPS is below average but it has improved in 2009 due to increased sales and increase profitability but EPS goes down again in 2010 which is unattractive for an equity investor to invest in NTCL.

## Return on Equity:

Though company had some profits in all three years but their equity turned into negative due to heavy accumulated losses from past years which make return n equity negative in all 3 years but it tends to come in positive due to profit generation in last three years and expected profit generation in coming years too.

## d. Strategic Cost Management Processes:

Cost management has become a critical survival skill for many firms in today’s highly competitive environment. But it is not sufficient to simply reduce costs. Instead, costs must be managed strategically. Strategic cost management is the application of cost management techniques so that they simultaneously improve the strategic position of a firm and result in reduced costs.

Though NTCL follows traditional cost accounting techniques to manage cost like other companies in the industry that determine the cost. Comparing those with the standards to find out variance and taking actions to reduce variances. Yet to some extent NTCL is involved in strategic cost management by focusing on the cost of each value chain factor. Mainly their operations derive the major cost portion, which is about 60% of the total cost. The company needs to manage it effectively. The breakdown of their operations cost is: Raw material is about 10-15%, labour about 20%, other over heads 10% but energy and gas cost is the major chunk of their total operations cost which is about 55%, due to high cost involved in the operations company has adopted following process to reduce some of the above costs, and avoid other new costs.

The company uses split technology in its operations in which two tiles are produced in one cycle that reduces the cost. Moreover, they have stand by system of electricity to avoid suspension of production in case of any major breakdown of electricity that may cause stoppage of production that increases the idle time of labor, and idle of time of machinery, delay in on time delivery of orders to the customers. To avoid poor quality and defect costs, the company follows prevention cost measures whose cost is less than what it costs in poor quality and defects by having quality planning, Quality improvement team meetings, quality education and training, process capability evaluation. Company is able to control over cost to some extent but it has not achieved its full objectives of reducing cost and improving efficiency as shown in company ratio trends in profitability ratios which are inconsistent due to cost of sales up and downs. Though company has strategic cost management process but the problem lies in execution of process.

## Strengths and Weaknesses

## Strengths

## Weaknesses

Competitive Sales Force

Company’s l