

The historical background and performance of services industries marketing essay



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This report covers the marketing strategy to launch Servis shoes in Nepal. We would start with the historical background and performance of Servis Industries Ltd. in Pakistan, and then we would move towards their Marketing strategy in Pakistan. After analyzing the Pakistani market, we would discuss our rationale for selecting Nepal as a target country; this would not only include the CAGE model but also the current competitors and leather shoes industry as a whole in Nepal. In the last, we would discuss the mode of entry in Nepal which Servis should adopt and the rationale for selecting this strategy.

Servis Industries Ltd was formed during the Second World War in Lahore to manufacture and sell canvas travel packs to the British and Indian army in India. Within a few years, they diversified their business into manufacture of leather sandals for the Indian police. Servis lost a major part of the market due to the partition of India, but they were able to recover financially through a contract for the supply of military shoes to Pakistani Army. This contract enabled them to shift from partnership to a firm named Servis Pakistan (Regd).

The era of 1950s was a rapid expansion for Servis; they acquired retail outlets in Lahore. A standard design of children's black school shoe was developed to be sold through all their retail outlets. Initially, the outlets carried various brands but as the Servis line expanded, they exclusively stocked " Servis" brand name products. Gradually the retail outlet network was extended all over the country.

Apart from establishing the national distribution network, Servis also moved towards vertical integration by setting up the “ Hilal Tanneries Ltd.” to ensure consistent supply of raw materials which was quality finished cow and buffalo leather.

During the 1950s and 1970s, Servis invested heavily in new equipment and machinery to expand its product line to include canvas and leather shoes with leather, PVC and rubber soles. As the quality of the product improved, Servis started exporting canvas shoes to UK. The major success was in the German market where they gained a favorable reputation. The export products were manufactured under the buyer’s brand name and were carried out by the discount stores. Servis converted into public limited company in 1969 to finance its rapid growth in the international markets under the name of Servis Industries Public Ltd.

In 1970s, Servis introduced a line of sports shoes for the export market. Some of the models were introduced into the domestic market as well. By 1980, Servis was involved in managing shoe factories in Tanzania which produced shoes with Polyurethane (PU) soles. PU soles were much more popular in the international market as compared to the rubber or plastic soles.

During 1980s, the shoe industry in Pakistan had two big players Servis and Bata, while rest of the industry was unorganized and fragmented. In the case of Bata, they had the advantage of being a multinational footwear manufacturing firm but they were not export oriented. Hence for Servis,

leather shoe export was a lucrative opportunity. As far as the rest of the shoe industry was concerned, it remained primarily a cottage industry.

Product Description

During the initial years, Servis had a limited variety of the products having simple and elementary designs. All of the shoes were handmade with uppers hand-stitched and soles manually cut. In 1950s a new method of nailing and gluing was introduced where separate sole was formed in a mould and cemented to the shoe upper. Servis was pioneer in producing vulcanized shoes with rubber compounds.

In 1970s, Servis invested heavily in injection molded shoe technology using PVC and PU. This high precision equipment provided the opportunity to build a variety of casual, sports and dress shoes.

The decade of 80s was about emphasis on quality improvement, Servis continued to focus on improving the aesthetics and quality of its products. They gradually acquired sophisticated and accurate equipment; for example Stuck Sole production had great flexibility in making a variety of designs as compared to the injection based which was geared towards large volumes of a single design. But Servis still had the problems in procurement of the good quality soles, heels and in-shoes, hence these components were supplied the foreign buyers.

Servis started exporting the canvas and leather shoes in 1980s; the share of canvas and leather shoes was 65% and 35% respectively of the export sales.

The canvas shoes were available in traditional designs while the range of

leather shoes fell into three categories; dress shoes for men, sports shoes for
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men and sports shoes for women. The all purpose sports shoes were in high demand worldwide. The two categories for the sports shoes accounted for 80% of the leather shoes, casual shoes for men were becoming more popular as compared to the dress shoes internationally. However, casual shoes were not manufactured internationally by Servis.

In the Pakistan market Servis offers its full range of products, which include the Don Carlos brand which in turn has variations of the brand under different names such as Maximus, N-dure etc. The Don Carlos brand is composed of formal leather shoes. This brand is for the smaller segment of people who fall in the upper and middle income groups. Cheetah is the leading sports footwear brand in Pakistan and achieved a good reputation among sportsmen. It symbolizes the sportsman spirit: full of passion, confidence and willpower. Unsurpassed in technology and design, Cheetah is the brand of choice for professional athletes and features special ranges for Cricket, Squash, Tennis, Soccer, Hiking, Trekking, and Running. Calza is a slipper shoe designed to give comfort and the feeling of lightness. This product is targeted to customers who like to wear casual open air footwear. Liza is a female casual footwear shoe with unique designs and affordable prices. Comfort and durability is the key feature of this shoe. Toz is a dynamic and trendy brand of shoes for kids. Again these customers' category falls in the middle and upper class. Skooz footwear is smart, stylish and reliable choice for school going boys and girls.

The company works on a multi pronged strategy in terms of promoting its product. The primary emphasis is to focus on Television and increasingly high on Radio advertisements as well as sponsoring events at schools and <https://assignbuster.com/the-historical-background-and-performance-of-servis-industries-marketing-essay/>

colleges to get the attention of young children. This is in line with their corporate strategy and brand image of being a sports related, athletic shoe maker.

For the other brand value that Servis incites it positions itself via promotions in the print media and television as being a comforting, high quality yet affordable brand.

Rationale for selecting Nepal:

There are about 60 shoe manufacturers in Nepal and another 100 operating informally. Industry estimates that local brands account for around 35 percent of the local footwear market.

The major shoes manufacturers of Nepal are Birat Shoes Company which manufactures sports shoes. Its authorized capital is 0.9M. It is operating with technical joint venture with Kulkje Corporation Limited, Korea.

The other key player is Leatherage Bansbari Shoe Factory Limited with is 100% owned by leatherage India Limited which has authorized capital of 100 M. Its annual capacity is 450K pairs of shoes.

Major chunk of Nepalese footwear industry is occupied by foreign shoes.

Officially, only one Nepali brand, Goldstar, is currently exported to India. In fact Goldstar is so popular in Nepal and India that the Chinese have started making knock-off Goldstars to sell in Nepal.

Inability of Nepalese brands to export in international market and very minor percentage of market share occupied by the national brands shows that

Nepali shoes have the problems in the quality, design and failure to meet consumer expectations.

Analysis of Nepal

Brief Country background

Multi-party democracy was established in Nepal in 1990 within the framework of a constitutional monarchy. The country went through 10 years of Civil war (1996-2006) between Maoists extremists and government forces. This led to the assumption of absolute power by then king. Historical mass protests in April 2006 and several months of peace negotiations between Maoists and government officials established peace accord and interim constitution. Following the national election held in November 2008, the newly formed Constituent Assembly declared Nepal a federal democratic republic and abolished the monarchy. The constituent assembly elected the country's first President in July and Maoists formed a coalition government in August 2008.

(Please refer to Exhibit 5 for basic Nepal Country facts)

Socio Cultural

Nepal has total population of 28M with the growth rate of 1.28 percent. Rate of urban population 17 percent of the total population and rate of increase of urban population is 4.9 percent. Religious distribution in Nepal is Hindu 80.6%, Buddhist 10.7%, Muslim 4.2%, Kirant 3.6%, other 0.9% (2001 census) and ethnic distribution of population is Chhettri 15.5%, Brahman-Hill 12.5%, Magar 7%, Tharu 6.6%, Tamang 5.5%, Newar 5.4%, Muslim 4.2%, Kami 3.9%, Yadav 3.9%, other 32.7%, unspecified 2.8% (2001 census).

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The main language spoken in Nepal is Nepali along with maithaili, bojpuri and newari.

In terms of the Geert Hofstede™ Cultural Dimensions, there is not much gap between Nepali and Pakistani Culture. As no research has been done in Nepal on the cultural dimensions, because of free border and open communication, we can assume the cultural dimension of Nepal to be close to that of India. And with that assumption Cultural Distance between Nepal and Pakistan can be seen as shown in exhibit 4.

Political and Legal risks in Nepal

Nepal has been politically very unstable since 1990 after the establishment of multi-party democracy. Its condition went worse with 10 years of civil war between Maoist insurgents and the government. Even after the declaration of federal democratic Republic, there has been power struggle between different political parties and the Maoists. In this scenario, country's policy can change anytime and it can affect any international business. Hence politically Nepal is a risky country.

Muluki Ain (Nepali Legal system) was introduced in 1854 by the first Rana prime minister, Jang Bahadur Rana, combined ancient Hindu sanctions and customary law and common laws modeled on the British and Indian codes with the rules of behavior that had evolved over the centuries among the Newars in the Kathmandu Valley. Its long history has helped Nepal develop its judiciary system in a matured state. But modern contract laws and business laws needs more scientific consideration.

Economic Environment:

With one third of the population below the basic poverty line, Nepal is still one of the poorest and least developed countries of the world. The major occupation here is agriculture which accounts for 38% of the GDP. Most of the industries here are also based on agriculture. The key source of foreign exchange here is tourism and remittance growth which seems to be declining by world recession. Nepal has considerable scope for exploiting its potential in hydropower and tourism, areas of recent foreign investment interest. Prospects for foreign trade or investment in other sectors will remain poor, however, because of the small size of the economy, its technological backwardness, its remoteness and landlocked geographic location, its civil strife and labor unrest, and its susceptibility to natural disaster. This is the country of 39. 09 Billion of GDP with annual growth of 5. 6 %. There is availability of 14. 6 M of labor force but major chunk is unskilled labor. 46% of the labor force remains unemployed. The electricity consumption in the country is 2. 276 billion kWh (2006 EST.). The country exports \$868 Million worth of goods and imports \$3. 229 billion.

Infrastructure

Infrastructure is much developed in Nepal now than 10 years back. There are 766, 400 telephone land lines and 1. 157 Million of cellular mobile phones. There are more than 42, 219 Internet hosts and in 2007 there were more than 337100 internet users in Nepal. There are in total 47 airports in the country and 17280 KMs of roadways in this small country.

There is much lesser competition in Nepal for quality leather goods.

European and American shoes are obviously expensive and Chinese shoes
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and renowned for its lack of quality. Pakistani Shoes can prove itself much better than Indian Shoes as Pakistani shoes are much successful in all the other international markets too as compared to Indian shoes. For 65% of the shoes being imported in Nepali market, Pakistani shoes can easily establish its own unique position and grab most of the market share because of its quality and pricing.

Although it is not possible to do a detailed consumer behavior analysis of the Nepali consumer due to lack of access to the customer, but the limited presence of Nepalese students at LUMS allows us to have some insights into customer tastes. Keep in mind though, that this analysis is based on just three Nepalese students who in factuality correspond to a very similar demographic. Nevertheless their opinions and preferences do matter and are therefore assumed to be of those of the general Nepalese populace

Based on their feedback, the Nepalese consumers want shoes which are reliable and dependable. That is the primary concern for the consumers. Secondly, price is also a concern. Users are willing to pay a little more than what they pay for locally manufactured shoes but the prices of products from other foreign companies are way too expensive for a majority of the customers. Therefore, a reasonable price is an important aspect for the consumer. Style and comfort also rate highly on the consumer's preference. Style, according to one respondent can be categorized by the leather shoes that Servis makes via the Don Carlos brand. Consumers are willing to pay a price premium for that style and for additional comfort offered by leather shoes.

We believe that Servis can capture a humble 5 % market share (Exhibit 3), and this brings the target of pairs to be sold to be 750000 pairs (in all categories). We believe this target can be achieved as there is a lack of good brand in Nepal and Nepalese are well receptive of the international brand as 65 % of the market is captured by the imported brand. Furthermore this is also essential because of the market failure in almost every part of the supply chain and Servis bringing its experience (of such market failures in Pakistan during the decades of 50s to 80 s) to fill up the gaps and capture the market very quickly.

This sub-brand of Don Carlos is positioned to leather formal shoes. As discussed earlier, Pakistani leather products have a good repute in Nepal, so we believe that this sub-brand would be successful in attracting executives/ businessmen and office working customers falling in middle and upper class. Age of these customers' falls in 25-60 years.

Maximus

This category is targeted to customers looking for a blend of formal and trend in the leather shoes. Age of these customers falls in the 20-35 years. Again these customers' category falls in the middle and upper class.

N-dure

This leather shoe is targeted to customers looking for casual leather wear which can fit with any kind of dress wear (Jeans, formal pants etc.). These customers are looking for comfort and relaxation and N-dure is a perfect product to fulfill this need. Again these customers' category falls in the middle and upper class.

CHEETAH

Cheetah is the leading sports footwear brand in Pakistan and achieved a good reputation among sportsmen. It symbolizes the sportsman spirit: full of passion, confidence and willpower.

Unsurpassed in technology and design, Cheetah is the brand of choice for professional athletes and features special ranges for Cricket, Squash, Tennis, Soccer, Hiking, Trekking, and Running.

Compared to brands like Nike, Adidas, etc. the quality is quite comparable and the prices of cheetah are considerably less than the above mentioned brands. So we believe cheetah being a good quality product and low prices can penetrate the market easily (considering the per capita income Nepal to be 1100 \$, much lower than Pakistan). Again these customers' category falls in the middle and upper class.

CALZA

Calza is a slipper shoes designed to give comfort and the feeling of lightness. This product can be targeted to customers who like to wear casual open air footwear. One disadvantage of this brand could be the slowdown sales in the months of winter when Nepal can be extremely cold. Again these customers' category falls in the middle and upper class.

LIZA

Liza is a female casual footwear shoe with unique designs and affordable prices. Comfort and durability is the key feature of this shoe. Again these customers' category falls in the middle and upper class.

TOZ

10 Million Population of Nepal falls between 0-14 years. To cater this market TOZ is an ideal brand which fulfills the need of the kids by bringing different colors, trendiness, style, durability and cool designs which look good on kids (are the feature of this brand). Toz is a dynamic and trendy brand of shoes for kids. Again these customers' category falls in the middle and upper class.

SKOOZ

To cater the category of children in schools, Skooz footwear is smart, stylish and reliable choice. It is durable, in affordable price and featuring ruggedness, which are perfect for daily school activities. Again these customers' category falls in the middle and upper class.

Placement

There are a lot of market failures in the supply chain and we see that franchising in Pakistan created great problems (in case of HR training, commissioning, sales, inventory management, etc.; refer to LUMS case # 04-2360-2008-1, Bata: Strategic choices). Due to these problems company is vulnerable to loses so we suggest that Servis should go for a self owned retailer ship. We suggest that 40 branches throughout the country be opened in one year and then expand the network depending on the sales and profit performance. Estimated calculation of sales per retail store is shown in the exhibit 2.

To achieve this target (of selling 63 pairs per day) we suggest that Service should acquire prime location for its retail stores in the heart of the city where selling 63 pairs would not be a big challenge. The preferred mode of

acquiring such place would be lease or renting such places so that in case of this venture Servis can exit the market easily.

We also see that in Pakistan Hush Puppies is selling its products through Bata stores and its own exclusive stores, so to increase the reach to the customers, we would also suggest to sign up contract (like Hush Puppies did with Bata) with credible stores of the big cities (Like Kathmandu). This will not only help increase the sale but also help reinforce the brand name and its credibility.

We will strongly recommend not selling through wholesalers as the market is inefficient and it could lead to reach our brand to low quality stores and customers dissatisfied with the customer service of that store might get negative impression about our brand.

Promotion

Since the Cultural norms and habits of the people Nepal are quite similar to Pakistan, we believe most of the Pakistani Television ads can be aired in Nepal with minor tweaking (saving money on the creative). We suggest airing these ads in the major Television channels during the prime at the time of launching the brand. The frequency can be reduced and timing can be changed once the brand's credibility is established.

Non-Traditional marketing can play a strong role in creating brand credibility. Conducting a game event in good schools (of the major cities) can help create the brand image as such events involve the whole family.

Since we have suggested that the retail stores should be company owned so in case of trade promotion we suggest to design the pay structure of the employees in such a way that the sales man get major part of his salary in terms of commission. This will keep the work force motivated to sell Servis shoes with zeal.

In case of selling through other credible stores, (since these would be our brand partners, with exclusive rights to carry our brand) we will have to give them good chunk of profit margin, to make our presence felt.

Pricing

We would suggest the pricing of the shoes in the prices in Nepal range at par with the Pakistan after adjusting the duties (for importing raw materials: leather). Rational for this strategy is that introducing Servis product at price range above the local and below the international brands would create a unique position for our brand and further will readily fill this gap.

Servis has already taken a big step to expand in western markets and it has been very successful in its exports to few of the western countries. Servis has not explored much of its opportunities in the past towards the south Asia. Its presence in Nepal and attaining success here would open many doors for its presence in other south Asian countries and help establish its brands as a global product.

Nepal is among the poorest and least developed countries in the world with almost one-third of its population living below the poverty line. Agriculture is the mainstay of the economy, providing a livelihood for three-fourths of the population and accounting for 38% of GDP. Industrial activity mainly involves <https://assignbuster.com/the-historical-background-and-performance-of-servis-industries-marketing-essay/>

the processing of agricultural products, including pulses, jute, sugarcane, tobacco, and grain. Bumper crops, better security, improved transportation, and increased tourism pushed growth past 5% in 2008, after growth had hovered around 2.6% – barely above the rate of population growth – for the previous three years. The deteriorating world economy in 2009 will challenge tourism and remittance growth, a key source of foreign exchange. Nepal has considerable scope for exploiting its potential in hydropower and tourism, areas of recent foreign investment interest. Prospects for foreign trade or investment in other sectors will remain poor, however, because of the small size of the economy, its technological backwardness, its remoteness and landlocked geographic location, its civil strife and labor unrest, and its susceptibility to natural disaster.