

Ewa Grandys

Technical University of Łódź
 Institute of World Economy and Textile Marketing
 ul. Żeromskiego 116, Łódź, Poland
 E-mail: ewa.grandys@poczta.onet.pl

Specialist Market Analysis Methods and the Strategic Decision-making Process in the Polish Clothing Companies

Abstract

A company should base its strategic decisions on an assessment of its market position. Such assessments require specialist research methods to be applied, consistent with the goals pursued. One such tool which may be very helpful in this process is the growth-share matrix, developed by the Boston Consulting Group. This has been used to assess Polish clothing companies. As a result, the research sample have been put into four groups of companies. The article describes the groups and indicates what can make them grow, but it also identifies organisations with slim chances for resisting pressure from their European competitors. Additionally, the research results have been correlated with the theoretical strategic elements. A comparison has been made of companies' goals, investment outlays and behaviour related to the risk undertaken. Information on the companies has been obtained by questionnaire surveys. Their findings confirm that clothing companies' should base their strategic decisions on specialist methods of market analysis.

Key words: clothing, BCG matrix, comparative advantage, sources of competitive advantage.

containing data from medium-sized clothing companies (there are no organisations meeting the criteria for large-sized organisations in the industry in Poland). In 2004, there were 641 such companies, making up 3.1% of the total number of firms (20,554). The 2004 production by sales of the clothing industry was valued at 9,586.2 m zloty (8.1% more than in 2003). The medium-sized clothing companies contributed 2,752.7 m zloty, which represented 28.7% of the total production by sales [8]. These numbers suggest that some of these medium-sized companies may be capable of competing successfully on the European clothing market.

Characteristics of the European textile and clothing market

On 1 May 2004, Poland joined the European Union. This had been preceded by a six-year period in which Polish clothing companies were granted free access to the Single European Market (SEM). The integration spurred intra-Community trading in clothing articles and textiles, as well as external transactions with third countries. Furthermore, the improved efficiency of management enhanced companies' competitiveness. The OECD defines competitiveness as business organisations' ability to compete internationally, with a high rate of return on the invested capital and maintaining a relatively high level of employment [1]. In the globalisation process, cost competitiveness is losing its importance in favour of growing technological

competitiveness arising from the ability to innovate. All these aspects determine the clothing industry's position in the European market.

A very important factor influencing the condition of the European clothing market was the import of clothing resulting from the abolition of barriers to international trade, in which China was the most important player in the market segment. In 2001, Chinese imports accounted for 18.3% of the total import of clothing into the Community market. The second largest supplier was Turkey, with a 9.2% share in import of clothing into the EU. These two countries were followed by India (6.3%) and Romania (5.3%) [6]. The latter has great potential as the provider of outside processing services for the clothing industry. The rates are illustrated in Figure 1. For the sake of comparison, in the same period Polish manufacturers held a 0.9% share in the European clothing market [4].

The above brief description of the European textile and clothing market influ-

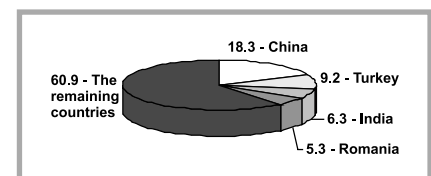


Figure 1. EU's imports of fabrics, knitted and leather clothing from third countries in 2001. **Source:** European Business. Facts and Figures, Office for Official Publications of the European Communities, Eurostat, Luxembourg 2003, p. 114.

Introduction

The long-term observations of Polish clothing companies which the author has undertaken out of professional interest, and the questionnaire surveys have permitted the formulation of a hypothesis that most of these companies make their strategic decisions intuitively, with only a few taking advantage of specialist market analysis methods. It can be assumed that companies where such methods have been implemented enjoy both short-term benefits translating into their market shares and long-term benefits measured by the market growth rate.

The attempt to verify the above hypothesis took advantage of a research sample

enced the assessment of the Polish clothing market and its competitive position on the Single European Market.

The domestic clothing market and the decision-making processes in domestic clothing companies

One of the basic business indicators that helped identify the market positions of the firms surveyed was their market shares. To identify these shares, the volume of the Polish clothing market had to be calculated. The estimation procedure used the following formula:

$$Wr = Psp + I - E$$

where Wr – the market volume, Psp – the production sold, I – the value of imports, E – the value of exports.

The total production sold by the clothing and fur industry in 2003 amounted to 8,867.8 m zloty. This figure was added to the value of imports in that market segment (5,384.7 m zloty), and then the value of exports (7,281.5 m zloty) was deducted [7]. The resulting amount of 6,971 m zloty represents the volume of sales on the domestic clothing market.

The 2003 production of the 29 Polish clothing manufacturers in the sample totalled 1,058.9 m zloty. From this total, the processing services (191.4 m zloty) and products exported by the companies (110.0 m zloty) were deducted. The volume of domestic sales of the sample was estimated at 757.5 m zloty (10.9%).

The companies' market shares served as the basic numerical criterion in the research. After being correlated with the rate of the clothing market growth, these shares enabled a BCG matrix to be calculated. Figure 2 presents the matrix for the sample based on data derived from Table 1. The axis Y is the annual rate of sales' growth. The rate's values below the horizontal line representing a 10% growth (as suggested by the authors of the approach) are assumed as low, zero or negative [3]. Other authors propose to set the cut-off value at the GNI level (Gross National Income) or at the sector's growth rate in the previous year, because in periods of downturn all companies move to the 'cash cows' quadrant or the 'dog' quadrant. When the BCG matrix was produced, it was decided to retain the 10% cut-off rate of growth.

Seven manufacturers with negative rates of market growth were omitted when plotting the chart of Figure 1.

The largest clothing manufacturer in Poland today is LPP. Nevertheless, it was not taken as the point of reference for market shares, because all the other organisations would then fall into the 'question mark' quadrant or the 'dog' quadrant. Therefore, the benchmark company was the one with number 1. It stood as the standard against which the shares of sales held by the Polish clothing manufacturers which were examined were marked on the X-axis using the logarithmic scale; the distances between them are therefore proportional to the shares' progression. The value of 1 separating the matrix vertically means that any given company analysed holds the same market share as its competitor, and a ratio of 0.5 represents 50% of the competitor's market share. Any value below point 1 is viewed as relatively small, and any point above as relatively large.

The circles on Figure 2 indicate the positions of the companies. Those in the same quadrants are linked by their current position in the clothing market. The BCG analysis assigned the following numbers of the sampled companies to individual quadrants:

- developing companies ('stars') – 2 manufacturers,
- stabilised companies ('cash cows') – 3 manufacturers,
- companies of uncertain future ('question mark') – 10 manufacturers,
- decadent companies ('dogs') – 14 manufacturers.

The shades on the chart in Figure 2 indicate the companies' volumes of sales. Black designates manufacturers with annual sales exceeding 65 m zloty; white marks those with sales below 15 m zloty, and grey stands for companies with sales volumes ranging from 15 to 65 m zloty a year.

Companies are expected to make strategic decisions based on their market position. The research confirmed that business practice may largely deviate from the theoretical models of behaviour. Table 2 compares the theoretical and actual behaviours in organisations combining the sample.

The goals, investment outlays and risk-related behaviour of companies in the

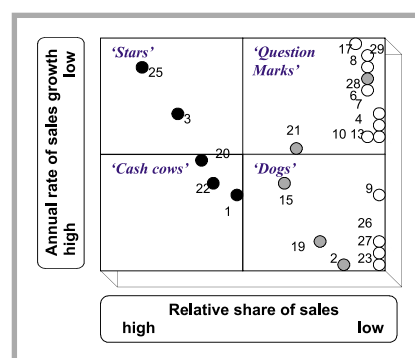


Figure 2. BCG matrix for the sampled companies' sales based on 2003 data. Developed by the author using the survey results.

'star' quadrant are no different from the theoretical models. In the 'cash cow' quadrant, one manufacturer spends too much on investments, thus running an excessive risk. Regarding the 'question mark' quadrant, the differences between the theoretical and actual behaviour of companies are seen to be growing. Only three had the recommended high investment outlays on boosting production and sales, but their level of risk was overly restrained. As for the 'dog' quadrant, the manufacturers' business policy considerably diverged from the theoretical models of behaviour. The companies did not use market analyses, and their strategic decisions were either based on incomplete information or made intuitively.

Specialist market analysis methods were mainly applied in the listed companies that calculate business indicators required by the Stock Exchange and GUS (the Central Statistical Office) reporting systems. Additionally, these indicators were used for making strategic decisions. However, the research did not find any cases of comparative analyses being made against the major market competitor.

Summary and research conclusions

The analysis of the results provided by the research focused on identifying the degree to which the companies used specialist methods of market analysis in making their strategic decisions, and how the decision-making process influences the competitiveness of the Polish clothing companies on the Single European Market. The findings justify the statement that the use of specialist analytical tools for market analyses may be one source of the Polish clothing companies'

competitive advantage. This opinion is confirmed by the situation of the companies examined:

- The 'stars' and 'cash cow' quadrants include five organisations (17.2% of the sample), four of which were listed companies. All five routinely applied business indicators that underpinned all their strategic decisions. Therefore, Table 2 does not show any differences between business theory and practice in that group of organisations. Consequently, their market shares are the largest and their market growth rate is the highest ('stars'), or they hold the largest market shares and their market growth rate is below 10% ('cash cows'). The rates confirm that both 'stars' and 'cash cows' have the largest potential for gaining short- and long-term competitive advantages on the Community market.
- Ten of the companies examined (34.5%) were put in the 'question mark' quadrant. The results obtained for this quadrant cannot be interpreted in the same way. Four companies (13.8%) cyclically assessed the selected business indicators. Considering that they have a relatively low volume of sales and experienced management boards, this enabled them to make optimal strategic decisions. The other six organisations (20.7%) only operated the indicators necessary to meet GUS reporting requirements. A comparison of the model and actual behaviours confirmed the existence of a gap between business theory and practice in this group. The companies have limited market shares and their rates of market growth are high; this combination can be a source of competitive advantage in the Community market for organisations which can make substantial financial outlays to increase their market shares.
- The 'dog' quadrant has fourteen organisations (48.3% of the sample). The research did not identify any market analyses being made in that group. Even the indicators developed for the GUS forms were not used in the decision-making process. All their strategic decisions were based on intuition and the management boards' experiences as surrogates of specialist analytical tools. The comparative analysis found large gaps between model and practical behaviours. Some companies in the quadrant were striving to regain their competitive advantage (they are well-known brands in the

Table 1. The rate of market growth and shares in domestic and export sales held by the Polish clothing companies in 2003; **Source:** developed by the author based on the surveys.

Co. no.	2003 sales, thousand PLN	2002 sales, thousand PLN	Rate of market growth, %	Market shares, %	Relative market share (against company 1)
1	64,841	61,931	4.7	0.453	1.00
2	20,000	20,000	0.0	0.140	0.31
3	131,097	100,000	31.1	0.915	2.02
4	3473	2,898	19.8	0.024	0.05
5	514	551	-6.7	0.004	0.01
6	10,641	7,383	44.1	0.074	0.16
7	4981	3,879	28.4	0.035	0.08
8	12,858	8,857	45.2	0.090	0.20
9	9,000	8,400	7.1	0.063	0.14
10	6,372	5,673	12.3	0.044	0.10
11	690	761	-9.3	0.005	0.01
12	8,163	12,433	-33.3	0.057	0.13
13	3,800	3,400	11.8	0.027	0.06
14	14,569	16,214	-10.1	0.102	0.22
15	48,137	44,619	7.9	0.336	0.74
16	7,867	8,835	-10.9	0.055	0.12
17	12,554	5,051	248.5	0.088	0.19
18	12,000	14,000	-14.3	0.084	0.19
19	27,726	27,042	2.5	0.194	0.43
20	110,025	112,485	8.9	0.768	1.70
21	30,484	27,741	9.9	0.213	0.47
22	91,771	86,037	6.7	0.641	1.42
23	4,350	4,350	0.0	0.030	0.07
24	6,215	8,818	-29.5	0.043	0.10
25	374,494	259,326	44.4	2.614	5.78
26	8,000	7,800	2.6	0.056	0.12
27	4,344	4,295	1.1	0.030	0.07
28	18,561	15,879	16.9	0.130	0.29
29	11,352	8,264	37.4	0.079	0.18

Table 2. A comparison of theoretical and actual behaviors of the sampled companies; **Source:** developed by the author.

	Strategic element	Model behavior	Actual decisions
'Stars' - 3 companies	Goal	To maintain or to expand the market share	Domestic and foreign market shares enlarged via: - the establishment of own chain of outlets, - chains of hypermarkets, - wholesale buyers.
	Investment outlays	High; reinvestments	High, mainly the expansion of own sales network.
	Risk-related behavior	Acceptance	Acceptance
'Cash cows' - 2 companies	Goal	To maintain the market share or its limited expansion.	One company decided to maintain its existing market shares, the other tended to enlarge its shares in the domestic and foreign markets.
	Investment outlays	Limited; only replacement investments and rationalization.	High in one firm, limited in the other. Outlays were allocated to replacement projects and the expansion of the sales network.
	Risk-related behavior	Risk reduction	Excessive risk was allowed.
'Question marks' - 10 companies	Goal	Selectively reduced or expanded market shares	Selective reductions were not found; two companies decided to maintain their market shares and the other eight to expand theirs.
	Investment outlays	High; mainly to boost production and sales	Investment outlays were high in three firms only. Others invested as much as was needed to meet the replacement needs.
	Risk-related behavior	Acceptance	Excessively limited risk.
'Dogs' - 14 companies	Goal	To reduce the market shares	One firm reduced its market shares, six decided to enlarge theirs and the rest tended to keep what they held.
	Investment outlays	Minimal; selling of the fixed assets and limiting of the production outlays	Only one firm decided to sell its fixed assets. One planned relatively high investment outlays. Another four limited their investments and the remaining companies did not plan to spend on investments.
	Risk-related behavior	Strong reduction of risk	Lack of skills allowing proper risk assessment.

Polish clothing market). Among them, only those that can finance the expansion of their market shares will have some limited chance for success. The prerequisite for achieving this goal is acquiring skills that allow the use of specialist market analysis methods in order to make strategic decisions.

- According to the research, 69% of the Polish clothing firms examined (48.3% in the 'dog' quadrant and 20.7% in the 'question mark' quadrant) made their strategic decisions intuitively, without applying any market analysis tools. As a consequence, their short-term competitiveness was low, as confirmed by the limited shares they held in the clothing market.
- In those Polish clothing companies that analysed the market, the business practice of making strategic decisions did not differ from the theoretical strategic elements correlated with the BCG model. This group of companies enjoyed both the short-term competitive advantage represented by high market shares and the long-term competitive advantage confirmed by the high growth rate of shares in the SEM.



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Received 06.06.2006 Reviewed 01.08.2006

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8-9 October 2007 Łódź, Poland

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3 June 2007 - deadline for sending full texts of papers and posters ready for publishing;

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Faculty of Textile Engineering and Marketing,
 Technical University of Łódź, ul. Zeromskiego 116, 90-924 Łódź, Poland
 phone (+ 48 42) 631 33 02 fax (+ 4842) 631 33 01 e-mail: imtex@kmt.p.lodz.pl
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