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MBAC 812 Company Project

Belgotex PTY (LTD) Case Study

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We declare that this submission is our own work ✓

Belgotex

B_

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DNA, PEOPLE SOLUTION
DYED NYLON, SDN,
POLYPRO- PYLENE,
GREEN- STAR 6,
SDX ECO, GREENTAG
ECO, NEXBAC
ECO DNA
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ORANGE UNDER-
CUSHION MIRACLE
BAC
BLUE UNDER-
CUSH ION

EXECUTIVE SUMMARY

The current business environment globally and locally has added pressure for companies to create value in the market place. The market is changing rapidly and is very complex and demands more than ever an approach that can move with changing circumstances. Strategy is the framework which guides those choices that determine the nature and direction of an organisation. Those choices relate to the scope of an organisation's products or services, markets, key capabilities, growth, return and allocation of resources. A business model describes the rationale of how an organisation creates, delivers, and captures value.

The objective of this Case study is to study Belgotex, a leading carpet manufacturer and to gain insight into the company's business practices and provide insight into a possible strategic direction for the future. The study aims to show a good understanding where all business practices fits into the business and to suggest changes that could be made on a functional level to the present Belgotex strategy. Areas of excellence as well as areas that require improvement will be under the spotlight.

The Soft floor industry has experienced a decline in sales volumes in recent years and the importance of a new growth strategy is crucial. The analysis highlights the growth path and history of the South African soft flooring environment since Belgotex came onto the scene and points out all the major infliction points of the past 36 years.

Market leaders cannot afford to be complacent and the importance of reviewing the current business strategy and plan for the future from the company's core must be examined.

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List of Abbreviations

BBBEE	Broad-Based Black Economic Empowerment
B2B	Business to business
B2C	Business to consumer
CAGR	Compound annual growth rate
CEO	Chief Executive Officer
CRM	Customer Relations Management
CSR	Corporate social responsibility
DOB's	Dealer own brands
FER	Focus expand redefine
IoT	Internet of things
ISO	International standards organization
IT	Information technology
KSF	Key success factors
KVI	Known value item
LSM	Life standard measured
LVT	Luxury vinyl tile
MLDL	Multi-level design loop
MTP	Massive transformation purpose

PVC	Plastic vinyl composite
SDN	Solution dyed nylon
SGPS	Strategic global positioning system
USA	United States of America
US	United States
USP	Unique selling proposition
VRIO	Valuable, rare, costly to imitate, organized to capture value of resource

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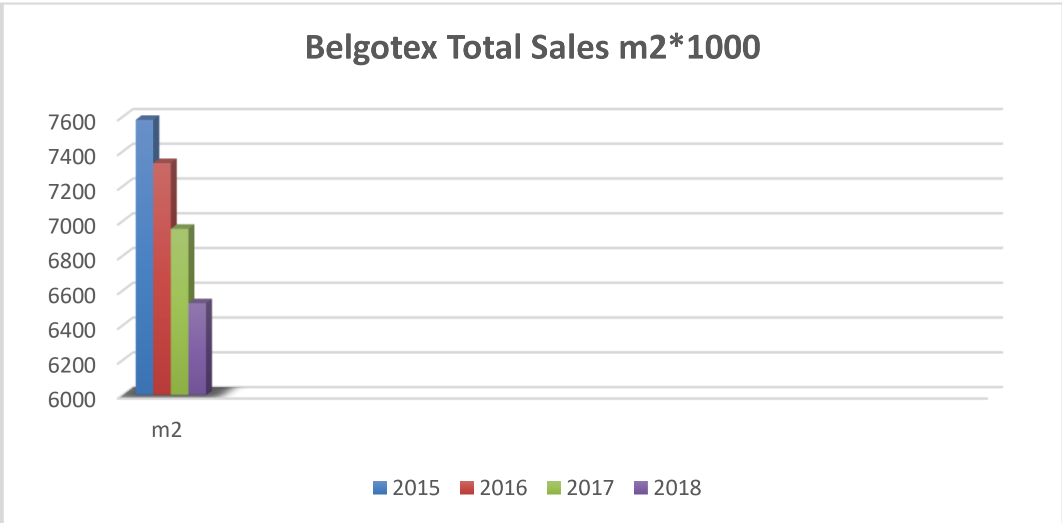
Chapter 1: Company overview

Introduction

Belgotex PTY (LTD) is a South African based carpet manufacturer with an International footprint. The factory is a 100 000/m² world-class production facility, based in Pietermaritzburg and is by volume the largest manufacturer of soft floorcoverings in South Africa as well as the largest carpet mill under one roof in the Southern hemisphere. The company employs more than 600 people. Sales, local and internationally, contributes for more than 6.5 million square meters per annum.

In recent years carpet market volumes have declined in South Africa with 2019 not being an exception. A quick overview of local sales by Belgotex from January 2019 to date shows that sales are down in relation to both the 2019 budget and 2018 sales for the same period. This could be a result of the poor current economic environment, however one cannot but raise the question whether the company is focussing in the right areas and doing the right things under current market conditions.

Figure 1. 1: Belgotex total sales by volume: 2015 -2018



Source: Belgotex Cognos (2019)

Figure 1 clearly shows the decline in volume sales for the past four years. Sales constitute for approximately 40% of volume in the residential market and 60% in commercial markets, locally and exports combined. In recent years the company has also increased its exports focus. Exports is an attractive and growing opportunity for the company and contribute currently to 20% of total sales by volume per annum. Belgotex exports to over 40 countries worldwide.

The flooring market

In both the residential and commercial markets, carpeting, ceramic tiles, luxury vinyl tiles, laminates, cushion vinyl, marble, granite, and timber flooring all compete for market share. In recent years ceramic tile sales have grown substantially, through distributors like Italtile, CTM and Tile Africa, taking market share away from carpeting and continues to be a growing concern for local soft floor manufacturers. Ceramic tile outlets are also often in close vicinity of each other offering the consumer a destination shopping experience and a wide variety of product offering. Carpet retail outlets on the other hand predominantly occupy smaller property and offer a reduced product offering.

Consumer behaviour has changed in the past decade and the market trend seems to have or is moving away from carpets throughout all living spaces. This is proof of a continuously changing flooring environment together with changing business resources and capabilities. Residential flooring growth has come from affordable housing developments. However, most developers use ceramic tiles throughout all living spaces and cut out soft flooring. The reason is today the market focus is on the marketing of vinyl, laminate and ceramic flooring solutions to the detriment of carpet solutions.

Belgotex product offerings are suitable for the use in residential, commercial office and retail spaces, hospitality, high-spec health and education centres as well as landscaped and sports environments. They believe that their control over the entire manufacturing process from raw materials to distribution has given them a competitive advantage and has ensured operational efficiency and unexpected speed to market with new product innovations throughout the years.

A general slowdown in the local economy has left Belgotex in 2018/19 with the primary challenge of how to best defend against the competitive pressures stemming from chief rivals in the hard flooring industries as well as the increasing amount of imported flooring solutions who are also aiming for a share of the flooring market.

Company History

Belgotex started operations in South Africa in 1983. The company was founded by Stephan Colle as a family owned business in Pietermaritzburg, originally trading as Natal Nylon Industries in the textile industry. The original strategy was to enter the local manufacturing arena as a progressive yarn manufacturer producing and supplying the latest high-tech yarn to local carpet producers and more specific the Romatex group. The idea of being a yarn supplier to local producers only, was short lived as the dominant Romatex group demanded that the company sign an agreement never to enter the carpet manufacturing arena. In return, they would continue to buy yarn from Natal Nylon Industries. By then the investment into the South African market was exceeding the R50 million mark and the Colle family decided not to sign any agreements that would hinder future growth opportunities. Shortly thereafter, in 1984, the company expanded into vertically integrated carpet manufacturing and Belgotex Carpets was established

This step forced the Romatex group to purchase Courthauls, a nylon extrusion facility in the UK for future yarn supply. This action inadvertently created their biggest future rival and eventually their own demise. In the early days though the new entrant to the market place had to learn hard lessons with carpet colours fading in the harsh sunny South African conditions forcing them to adopt quickly to local manufacturing conditions and processes, away from a predominantly European manufacturing mindset.

Over the past 36 years, Colle established a global footprint through the acquisition of various international operations throughout Europe, Latin America and Australia. Today Belgotex South Africa is a member of the multinational Belgotex International Group (BIG) with seven companies over four continents. The company continues to diversify into the import of other flooring types such as vinyl, grass, rubber, and produces underlay, and remains true to its original strategy of continuous innovation and product development. Belgotex' culture of continuous investment in equipment and its reputation for excellence, which stemmed from the early days of manufacturing defects and hard lessons learned, have been essential to keep moving the company ahead of the competition as well as the preferred flooring option for the South African market.

The business enjoys a significant market share in South Africa, offering various soft floorcoverings, luxury vinyl, artificial lawns and modular carpet ranges for specific market segments. Over three decades the Belgotex strategy has been one off achieving a competitive advantage based on better capabilities and competences than industry rivals. The manufacturing processes focusses on the production of tufted and needle punch broadloom carpeting, tufted and needlepunch carpet tiles, polyamide and polypropylene yarns, polypropylene staple fibres as well as artificial grass. The company also extended its manufacturing arm into the distribution channel of importing cushion vinyl, homogeneous vinyl, luxury vinyl tiles and rubber products through international partnerships and networks.

Belgotex overview:

- **The family entrepreneurial spirit**

Belgotex can be defined as a family business. The original founder, Roger de Clerck, started Beaulieu textiles in Belgium, 1959. The company grew from small beginnings to an international family enterprise namely Beaulieu International Group (BIG). Belgotex South Africa was founded under the Beaulieu umbrella in 1983 by Roger de Clerck and his son in law, Stephan Colle, and the business can be defined as a family corporate venture. A family corporate venture occurs when an existing family company or group starts new business (Spinelli & Adams, 2016:428).

Family businesses often faces a number of inherent challenges that may keep them bound to past strategies rather than pursuing new opportunities. The challenge is not to fall in the trap of past successes being a guarantee for future successes. In South Africa the role of chief executive officer of Belgotex has been handed over to the next generation, Edward Colle, in 2018 as the Colle's seek to grow their legacy as a family entrepreneurship in the flooring industry.

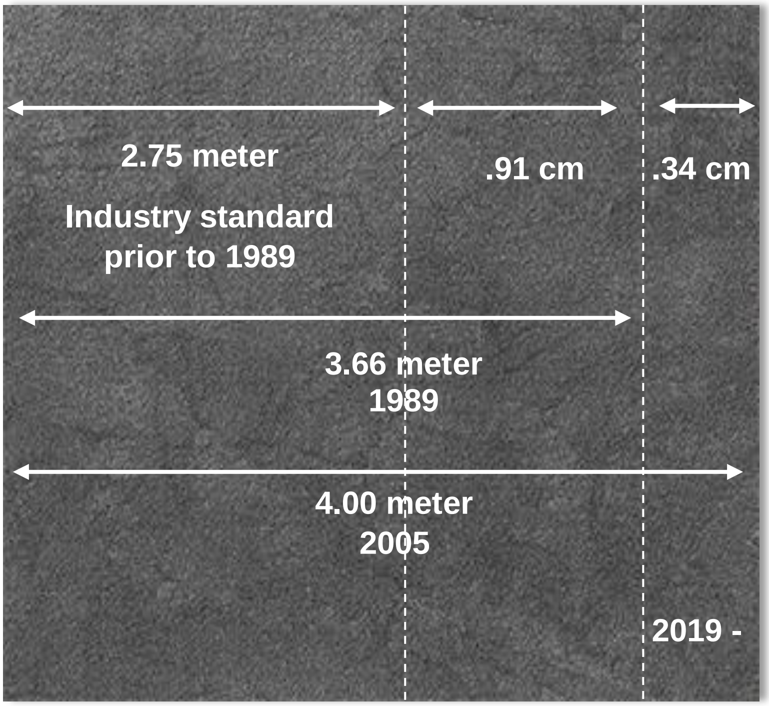
- **Research, development and product history**

Belgotex can be described as a "first mover" in the South African soft flooring manufacturing space. First movers need to have innovative product offerings as well as large-scale production, marketing and distribution capabilities. The following are all examples of the Belgotex legacy of firsts in the market place that assisted them throughout the years to establish brand loyalty, develop and grow loyal customer relationships and to maintain a good distribution network:

- First to introduce the advanced *MiracleBac* backing for tufted products and *NexBac* a bitumen-based backing with fibreglass scrim for dimensional stability in needlepunch and tufted carpet tiles as well as *NexBac Eco* with recycled content;
- Created *BerberPoint* the first structured needlepunch range in South Africa to address key flooring issues of performance, price and availability;
- First for *Stainproof Miracle Fibre*™ - revolutionised yarn system for polypropylene carpets, *Stainproof SDX*™ for nylon carpets and *SDX Soft*™ for a softer, silkier carpet experience;
- First to produce a cost-effective carpet, *Matador,* in which yarn were extruded and send straight to the tufting process, cutting out other production processes such as heat set and twist or air entanglement.
- First to locally manufacture artificial lawn, *DuraTurf*, to withstand the harsh UV-rays of the sunny South African climate;
- The first South African flooring company to gain the coveted ISO 14001 environmental certification;
- First to launch a *Green underlay* made from 100% recycled fibres and first to recycle polypropylene and production waste in-house to produce recycled eco fibre;
- First to conduct a carbon footprint analysis as part of their sustainability strategy and to install a roof-mounted solar power system to move towards more sustainable energy sources;
- First to create an academy that could provide essential fitting skills to the flooring trade, as well as piloting the first National Qualification of Floor Coverings (NQF1) training program;
- First to introduce the sophisticated pattern tufting technology of Tuftweave, allowing designers the flexibility to create luxurious axminster-type carpets from any design or pattern, previously only achievable by weaving;
- With the launch of the *Lifestyle Collection,* Belgotex were the first local manufacturer to link a carpet range with technology. An application was created assisting consumers in choosing the correct carpet design and colour based on their unique personality attributes;

- The first local manufacturer to charge for samples. Customers initially only had to pay for the *Lifestyle Collection* books but based on the success of this initiative the program was rolled out to all ranges.
- Another significant first for Belgotex and the South African carpet industry was the introduction of a new carpet width as shown in figure 2. Prior to 1989, the standard width for carpets in South Africa was 2.75 meters. This led to more joins when a broadloom carpet was installed making the installation labour intense and took longer to install. Belgotex then introduced the new 3.66 meters width to the market with a campaign that stated: pay for 2.75 and get an extra .91 centimetres free. This was very well accepted by the retailers as it led to quicker installations, less waste and less joins and soon became the new industry norm. In 2005 Belgotex introduced a second width to their portfolio by introducing 4 meters width. They would produce 3.66- and 4-meters width products from 2005 until 2019. In 2019 all carpets produced by Belgotex moved to 4-meters only cutting down on production cost and time, adding to more square meters volume through the mill and assisting with the overall installation of carpets as most modern residential rooms do not require any joins if a 4-meter carpet is used.

Figure 1. 2: Differentiating carpet widths introduced by Belgotex: 1989 - 2019



The Belgotex first mover strategy was not always without aches and pains. Their entry into the polypropylene market, which has always been a more affordable yarn system, but more inferior to wool and nylon systems, led them to launch the wholesaler's dealer own brands (DOB's). They did not want to risk launching polypropylene products under the Belgotex brand. Although the DOB's was a huge volume spinner and did bring in revenue, it created many other industry issues as discussed already. The company did launch their own polypropylene ranges after they saw the success of the DOB's, but almost over engineered the original products such as *Cobblestone* and *Royalcord* in fear of these products not performing and harming the brand.

The success of the Belgotex polypropylene ranges against the more expensive post-dyed nylon, wool and polyester ranges of their opposition gave them a much-needed footing in the market place. The success of these ranges in later years became an integral part of their product mix and assisted in the company's accelerated growth.

Their love affair with polypropylene as an affordable yarn system and alternative to expensive wool and nylon carpets did not always work in their favour though. The company launched between 2004 and 2008 two polypropylene collections that were complete flops. The *Soft collection* was aimed at reaching a market segment of consumers who were more interested in a softer feel of carpeting but could not afford wool. Strong, durable, well-constructed polypropylene carpets manufactured from the Belgotex 1450-yarn system had a much harder feel to the touch than the *Soft collection.* The collection was a success at the start of the campaign, but due to many performance related complaints and sales declining the collection discontinued two years after launch. They then ventured into the launch of the *Spun collection* which simulated the wool look, but again used the polypropylene yarn system. These ranges were much better constructed, and their look and feel were similar to that of wool. Unfortunately, the designs were not well received by the target market and higher pricing from manufacturing processes led to their demise as well.

In 2006 Belgotex also ventured into reaching the new upcoming Black diamond market by developing and launching a whole collection of affordable bright coloured post-dyed carpets for this market. Without proper market research the company believed that this market did not want to afford expensive browns and beige type of carpeting as the traditional market was purchasing and started to produce less expensive bright, blue, yellow, green, red and even pink nylon carpeting for a whole new unknown market segment. This was the birth of the *Home* collection with a huge investment in marketing and point of sale material, sampling as well as stock holding. The target market did not want to accept the fact that they were labelled different and did not buy the ranges. The home collection again was not a success at all and withdrawn from the market two years later.

Many solution dyed nylon (SDN) ranges were also designed and launched throughout the past fifteen years that were profitable money spinners in the middle to high end of the market. Their target market predominantly the commercial tufted broadloom market and high LSM residential markets. They were a first mover in the South African market as well as a global leader in the extrusion and manufacturing of SDN yarn systems and products and could afford good profit margins on these ranges. Today Belgotex exports SDN products all over the world with the Australian and New Zealand markets key to the success and growth of these ranges.

In 2015 Belgotex noticed a decline in the volume sales of their polypropylene ranges which remained the backbone and bread and butter products for the local mass market and needed to react quickly. Out of this realisation the very successful Belgotex *Lifestyle collection* was launched. *Lifestyle* was earmarked to be the residential launch that would set the company up for the future in the residential market segment for the next couple of years and launch was planned for August 2016. The strategy was to launch nine new polypropylene carpet ranges, together with a mix of three cushion vinyl and luxury vinyl tile ranges, aimed at the millennial market segment who are looking for trendy affordable residential flooring solutions. Highlights of this launch included:

- Bringing smart technology into the process of selling flooring and addressing the new and younger generation;
- A new way of sampling and new stand displays, creating a completely new look and feel and way of merchandising in showrooms;
- For the first time in the history of the flooring industry a manufacturer would charge for sampling;
- A campaign with a different look and feel and a different consumer experience and interaction in the buying process;

- Get consumers back into the stores;
- Assist with margins on soft flooring;
- Offering good looking and value for money ranges;
- Offer free Belgotex *Green underlay*, a sustainable green product, with every square meter of Lifestyle purchased.

The opposition had no answers to this campaign and the collection was an overnight success with declining polypropylene volumes stopped in their tracks. Belgotex is also the only local producer that manufacturers their own underlay from post manufacturing waste and was in a commanding position to use this differentiator to their full advantage. In the first year of launch the following milestones were reached:

- 1228 sample books were sold together with 1228 stands were fitted in showrooms nationally;
- In Gauteng (Belgotex largest market) the Lifestyle category grew from 41,550/m2 (2015) to 112,578/m2 (+170.95%, 2017)
- January – April (2017) the category grew from 32,210/m2 (2016) to 79,738/m2 (+148%, 2017).

The collection did however show flaws as well. These problems were never really addressed by Belgotex and three years later the company is looking at a relaunch of a completely new collection, converting back to the traditional sample and merchandising format. The main reasons being:

- The collection was launched with postcard sample sizes and the trade and end-users continues to ask for larger sample pieces;
- The unwillingness from the architects and designers to buy the books as well as the general flooring trade's reluctance to buy more books and supply their networks like developers and specifiers with *Lifestyle* books;
- The likes of developers like Leogem and Summercon, looking at alternative products to replace the Lifestyle ranges, due to the lack of larger samples;
- The lack of small card samples caused difficulties for the Top Carpets group and the insurance part of their business;

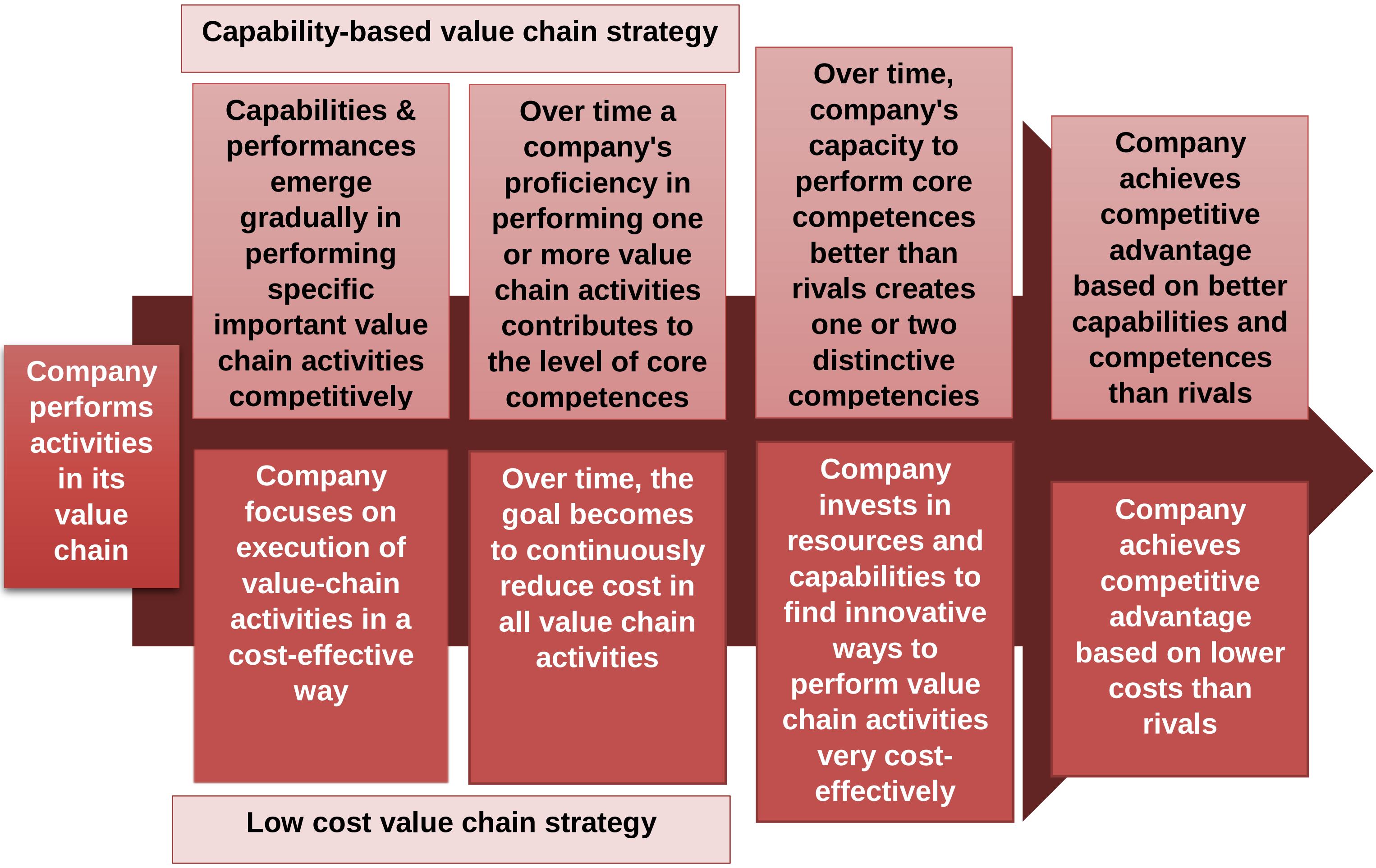
- The new modern Lifestyle stands were installed in traditional showrooms next to current larger 69cm X 34cm sample display units with consumer naturally leaning more towards the larger sampled ranges for choice;
- The sample books hosting 11 ranges were bulky and heavy with many retailers not wanting to use them outside the store or replace them once warn out.

In recent years Belgotex has invested heavily in machines and technology that would assist them in producing product ranges that will be able to compete in the commercial and hospitality arena with international industry rivals such as Interface and Milliken. World class Belgotex commercial products has seen the light through this drive and the company is progressively making inroads in both the high-end commercial and hospitality markets.

Although there are not many carpet manufacturers left, many overseas manufacturers have found South Africa an attractive market, and in recent years the market has seen an influx of imported residential and commercial carpets as well as other products. This has shifted the flooring landscape in the last decade from a predominantly oligopoly with high cost entry barriers and strong local manufacturer control to a monopolistic competition market with many imported similar, but not identical products at attractive price points blurring the barriers of entry into the market.

Belgotex has throughout the company’s history strived for innovation, service and differentiated factors to grow their market share. Figure 3 shows a combination of the capability-based and low-cost value chain strategy path that Belgotex took through the years. Today this strategy has proved to be more important than ever before. Differentiating factors like brand equity, eco-friendly manufacturing initiatives, first mover capabilities, technology and innovative manufacturing processes, together with global networks and infrastructure is still giving Belgotex a local advantage in troubled market conditions.

Figure 1. 3: Combination of capability-based and low-cost value chain strategy



Source: Ungerer *et al.* (2016:175)

- **Operations**

Belgotex carries at any given time approximately R300 million of stock in either, raw materials, working in progress goods and finished goods. This strategy has proved through the years to be a winning formula to supply the flooring trade fast and efficiently on a just in time basis.

Logistics and deliveries have always been one of the biggest challenges for Belgotex. In recent years though their logistical challenges have intensified. The original Belgotex strategy was order before 17H00 today and they will deliver by 17H00 tomorrow. This strategy was part of their rapid growth path and gave them the edge for many years. In the latter part of the first decade after the turn of the century, Belgotex changed their order cut-off time from 17H00 to 14H00 allowing for more transport and distribution time. This service remains however a remarkable achievement for a labour intense organisation. The consumer can theoretically place their carpet order with the retailer today, and if the retailer can accommodate them, have their carpeting fitted the following day.

Transiton, their transporter since inception, was a dedicated carpet distributor and handled both the long-haul from the factory to the national distribution depots as well as the daily inter-customer short-haul distribution routes. With increased transport costs, larger traffic volumes on all routes and Belgotex diversifying into other product types as well, Transiton did not completely remain in tune with market changes and experienced increase challenges on the logistics side.

New product types like LVT's are heavy and bulky to transport and can be damaged easily of not transported correctly. Deliveries into country regions such as Limpopo, Mpumalanga, Northwest, Free State, North and Eastern Cape all created new challenges with declining daily volumes, making it difficult to afford daily deliveries into these areas. Transiton started to outsource deliveries to these regions through courier companies with new challenges arising. Flooring products are heavy and bulky and reach the flooring retailer often in a dirty or damaged state as these transporters do not take the same caution and attention to detail with the deliveries of these products.

Transiton started to experience financial difficulties in 2015 and were bought out by Concord Carriers at the start of 2017. The take-over did provide much needed relief although country regions are receiving their orders via courier transporters and one can only guess as to how sustainable current delivery and transport methods will be for the industry in the future.

- **Marketing**

Belgotex has throughout their history experienced successful marketing and product campaigns like:

- The *Berberpoint* campaign offering the market a commercial product at less than R10/m², overnight delivery and an always in stock promise in 1989;
- The *Matador* campaign with the slogan carpet your house for less than R3000/m²;
- The *African Collection,* riding on the fact of a rooted in Africa manufacturer, drawing inspiration from the African landscapes for product designs and textures;

- And in recent years the launch of the *Lifestyle Collection* (polypropylene) and the *Softology Collection* (nylon).
- The popular Belgotex stainproof television advertisement in the early 2000's established the brand as a household name.
- Brochures with professional installation photography accompanying new product launches aimed at the designing and architectural market segment;
- The company's new DNA campaign coupled with their drive to be a responsible corporate citizen and a world-class African Brand Showcase.

Although many marketing successes were recorded, one can almost argue that their marketing strategy has been based on a hit and miss mentality. The company has also had many changes through the years in the internal marketing department as well as the outsourcing of many marketing projects to companies like Walley and associates, Marot and Sanders and currently Parsons. All these various changes left the company with a fragmented and inconsistent look and feel to the brand, and sampling images. The company has gone to great lengths and many hours of planning, research and development of new innovative products as well as millions of Rands spend on new machines and equipment to bring new ideas to life and ensure market growth, yet the marketing and product launch strategies has not always followed the same passion and drive.

Belgotex also does not have a marketing director and one gets the impression that the company lacks direction and strategy from a marketing point of view. In the modern era where, one has seen marketing roles being disrupted over the past decade thanks to the global phenomenon of mobile and social media it is almost inconceivable that a Billion-Rand company like Belgotex does not have a marketing director.

Fundamentally Belgotex find themselves in the midst of the décor industry with the focus on trendy flooring textures and designs. In the eyes of Mr. Colle senior, flooring must be a sexy décor feature. The modern soft floorcovering is installed in spaces which are very trend driven, emotional, colourful and texture demanding. Marketing, not only locally, but globally has taken the eye of the ball and has not considered the emotional side of the consumer, Colle explained. The industry is fundamentally selling and offering product to the consumer the same way it did 25 years ago. Most other industries have evolved in the way they present, sell, market and use technology to reach the consumer. In the eyes of Colle, the flooring industry is lacking behind and one finds it strange that Belgotex has no marketing director at the helm leading and steering the way.

Belgotex also changed the look and feel of their Branding in 2017 and one must ask the question if the new brand is doing the company, its loyal customers and products justice and communicating the required message (figure 4):

Figure 1. 4: Belgotex branding - Old vs. New

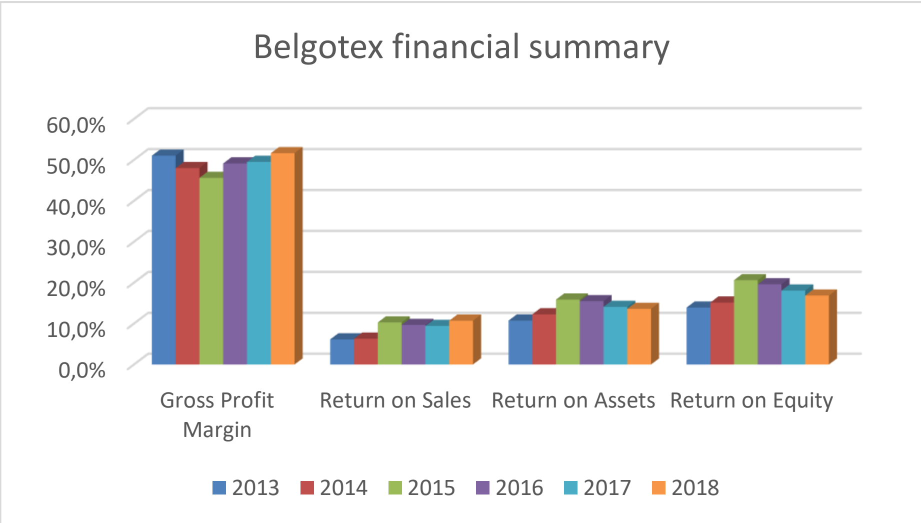
- **Finance**

Sales volumes has been declining as shown in figure 1, yet Belgotex is still maintaining good profit margins as they are selling heavier weight products earning good margins on sales per weight ratio rather than high volume low weight and low margin products. Being a large volume driven mill the company has a high fixed cost account and cannot afford to run at too low gross profit margins. As shown in figure 5, the company is showing good financial welfare and profitability over the past six years. The percentage of profit is above the assumed minimum risk return percentage of 6%. Return on equity percentages is between 12.8 and 15% for the past three years and one can assume that the company is still a profitable business. There has been a slight decline of 2.2% 2016-2018, but in the current unstable economic environment still an acceptable return in investment. The high gross profit ratio indicates that the business's pricing structure of their products are sufficient.

In the past ten years the cost of samples has been escalating and a growing concern for management. In 2017 the company's sampling bill was in excess of R17 million and the management team felt it was an expense that was out of control. Sampling has always been a no-cost item to the flooring trade. On the back of the very successful *Lifestyle* campaign and customers paying for their *Lifestyle* books, Belgotex introduced a new pay for all samples policy at the start of 2018. Based on customers purchases the previous year, customers would receive a percentage allowance, similar to a medical aid savings plan to a maximum of R25 000. Once their allowance was depleted, they would start paying for all samples ordered in a financial year. This step saved the company R10 million in 2018. Customers could now decide which samples they need, order the correct quantities, reduce the waste of samples factor and manage their own sample expenses.

Being a family owned business, it is important to note that the company through Colle senior always had a mindset of reinvesting in machinery and new technology. This has always been sound business principles as a business's value depends upon its owner's capabilities. The mind set contributed to their continuous growth and development in the past 36 years. Value creation is driven by growth and returns on capital though and the task is now on the next generation CEO, Edward Colle junior, to ensure that the legacy continues.

Figure 1. 5: Brief financial analysis



Source: Belgotex Cognos (2019)

- **Human Resource**

The HR department of Belgotex was for many years only a payroll department not adding real value to the employees of Belgotex in terms of skills upliftment programs, careers enhancement and talent management plans. The company also experience cultural differences and conflict within the factory environment with many employees experiencing unfairness and manipulation in their daily working environment.

Since its inception Belgotex, implemented a “men-only” policy within the sales force. All of this changed in the past 15 years with the Gauteng sales office taking the lead in employing woman as part of the sales team from various backgrounds and cultures. Today the national sales team has close to a 50/50 split between woman and men of diverse cultures driving the day to day sales activities.

In 2016 the company started to introduce changes to is HR department in a meaningful way by employing a new HR manager and promoting her in 2018 to HR director. The company also embarked in 2017 on a cultural survey exercise and went through a DNA initiative asking the deep and hard questions on where they came from, where they are currently sitting and what does a possible future look like. From these results the HR department has put together a strategy and many initiatives to bridge the gap between the old culture and the new DNA driven culture Belgotex is trying to create.

Belgotex neglected post 1994 to implement cultural diversity workshops in the work place together with team working initiatives and building a culture of inclusivity. This shortfall was only realised in 2017 and the company’s forceful haste to rectify the backlog in a short space of time is questionable.

- **Technology**

Belgotex is known for their innovative decisions and products on a technical level. The company has always been very product driven, making investments in high tech equipment. They are in essence a manufacturer who has out sprinted their industry rivals from a high-tech production level but has been lacking on the information and gathering of Big Data side. Their CRM system was implemented only in 2018 and not yet fully functional from an operation perspective.

In 2017 the company introduced an electronic tracking system in its 35 000/m² warehouse facility. This technology has streamlined and quicken the allocation of stock in the warehouse as well as the order execution, loading and dispatching processes.

Belgotex also introduced a tracking system for all orders. Customers can now track every order from time of placing the order until final delivery. This can assist them in planning their fitting schedules more efficiently.

The company uses IBM's Cognos analytics AI-infused business-intelligence solution for all sales statistics and data capturing. The system allows businesses the scalability and analytics governance modern business demands and easily create compelling visualizations and dashboards as well as offering a self-service analytics solution they can trust. It is a powerful data analytics system that provide the user with vital information to drive sales, improve stock holding and forecasting, track individual product sales, view sales by colour popularity, different price points customer types and groups to only mention a few.

The sales force has been using a growing number of devices and technologies which are increasingly demanding electronic access from everywhere which will lead to increased hacking and other security issues, not yet fully understood and secured by the company's IT department. It is estimated that only 6% of corporate security breaches are detected by IT departments (Ismail *et al.,* 2014:279). The world is becoming rapidly digitized and technology is no longer only limited to the factory floor but extended to all part of the business multiplying risk in all areas of the business. Technology and Information governance and the creating of a framework that supports effective and efficient management of information resources to facilitate the achievement of company objectives is not clear within the current Belgotex framework.

- **Sustainability and Risk management**

The Belgotex facility and manufacturing processes complies with a series of ISO 14000 standards and also carries an international accredited green tag eco label certification. Their six-star certification recognises them as a global leader in sustainability practises. The company has long term operational plans dating as far back as 1991 to ask more of themselves and less of the planet in everything they do. The company has always pushed the limits for operational efficiency, seeking out ecologically sustainable manufacturing methods and developing eco-friendly products.

Belgotex has been striving for good corporate citizenship for many years but is lacking corporate risk management practices in terms of branding on sales representative vehicles, social media usage by staff, the use of technology devices and general risks exposure of company sensitive information. The company does not have a Red Ops team for example who can find hidden breaches of information before external agents can exploit them.

Overview of the industry and key industry challenges for all stakeholders

The South African flooring industry has always been an example of an industry with too many players. In the mid-Eighties the industry was crowded with too many manufacturers on the scene with the likes of Dunlop Carpets, Constantia Carpet mills, Van Dyck, Nouwens, S.A. Carpet mills, Floortime, Regina, Utex and Tuftco all competing for market share. The industry was an attractive market with projected industry growth at an attractive rate for decades because of increasing urbanisation and rising middle class standards of living in South Africa. It was also during this time that the Romatex group was formed through the mergers and acquisition of mills like Van Dyck, Constantia, Floortime, S.A. Carpet mills and Regina.

The group was in the late Eighties and early Nineties a giant force and Mr. Colle senior from Belgotex tells the story that the board of Romatex gave him two years maximum in the South African flooring market and then he would be out with his tail between his legs. But against all odds the industry continued to flourish into the nineties with the new entrant into the market place, Belgotex, starting to take market share away from the Romatex group. Belgotex' strategy of vertical integration, continuous improvement in technology, and faster distribution started to pay dividends.

Belgotex also introduced a speed to market strategy. They would always have a one third stock holding split between raw materials, working in progress goods and finished goods in stock and was able to deliver a cut length service overnight into the biggest market which was the old Transvaal province. Many of their competitors at the time had a make to order system. The Romatex group, who was the market leader only supplied 25 rolls or more at a time. The largest retailer and distributor of carpeting with a national store footprint was OK Bazaars who rapidly became Belgotex' number one customer and the scene were set for the company to grow and take more market share away from their opposition. One wholesaler, Wonder Flooring, also started to support

Belgotex in stocking their ranges and the other wholesalers would soon afterwards follow the lead of Wonder Flooring.

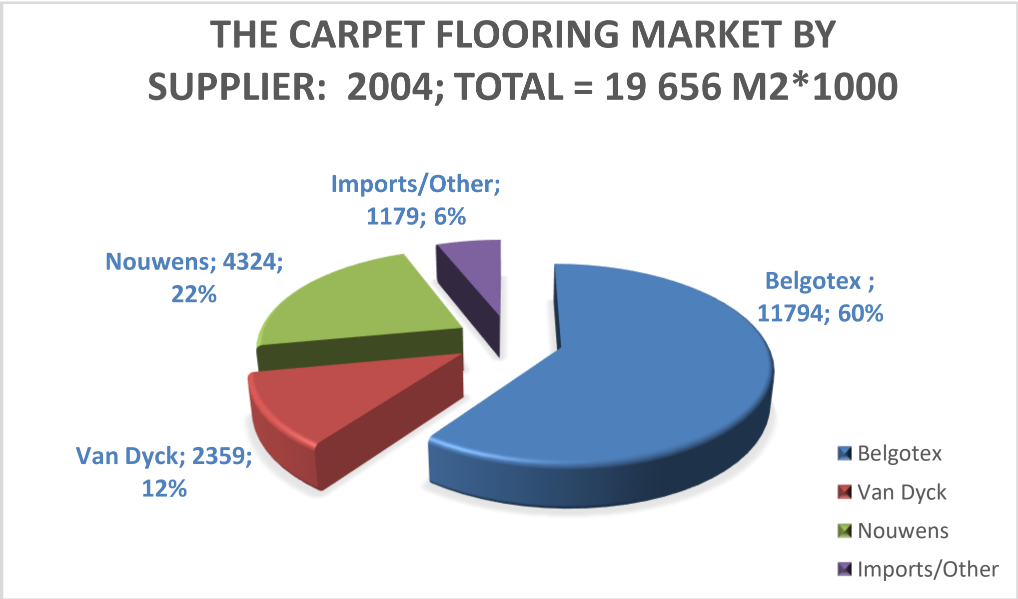
In the nineties the market saw a shift as the Romatex group started to see declining revenue and experienced financial difficulties. At the turn of the century there was nothing left of the Romatex group. Van Dyck carpets were bought out in the early 2000’s by Domo a Belgium based manufacturer seeking footprint in the African market. Only three carpet mills were left, namely Van Dyck Carpets (Domo), Nouwens and Belgotex, with Belgotex continuing to grow and take market share away from industry rivals.

The late nineties and early 2000 also saw the rise of the wholesalers and the industry entered a new era of wholesaler dominance. The big five players in the market were Pioneer Carpets, Selborne, Wonder Flooring, Fotakis Bros. and Carpet Brokers. The wholesalers stocked product in depth and could offer the market cut lengths and same day deliveries. Belgotex could fill up the wholesale stock pile overnight and the company saw rapid growth of more than 20% per annum for over a decade with the wholesale trade the biggest contributor. Belgotex had the majority market share within the wholesale supply chain as they could afford to offer the best pricing structure from quarterly to annual stocking rebates and competitive pricing on all their products and started to dominate the wholesale market. The flooring wholesale market refer to businesses who form part of the flooring industry, working either from a showroom or from home but do not hold a purchase account directly with the various carpet manufacturers. These businesses’ supply chain starts with the flooring wholesalers.

Belgotex also manufactured dealer own branded products (DOB’s) exclusively to the wholesalers. The wholesalers had to buy full rolls and could order these ranges in bulk only. These ranges were competitively ex-works priced and led in many cases to the disadvantage of Belgotex branded products that were subject to higher pricing. At the time though the DOB ranges assisted Belgotex to feed the volume driven production facility in Pietermaritzburg which enabled them to stay on the growth path and in touch with modern technology, much to the detriment of the remaining two manufacturers, Nouwens and Van Dyck. Through the DOB strategy they also came to dominate market share through the wholesalers.

The predominant question was if this rapid growth was sustainable. The wholesalers fought harder for market share supplying product at discounted pricing much to the harm of other factory accounts. Factory account holders like the OK Bazaars and House and Home chains, as well as independent retailers and buying groups like Top Carpets and Carpet and Décor had to compete against wholesaler account holders. The wholesaler account retailers would often work from home with no showroom facilities, less overheads and supplied by the wholesalers at very competitive prices to the detriment of the factory account holders. This led to another turning point in the market place as both direct and indirect trade started to run their businesses at lower and lower profit margins leading to financial difficulties which spilled over to the wholesalers not being paid on time and factories having to offer 90 days terms and in some cases 120 days. Figure 6 shows the flooring landscape and stakeholder market shares in 2004.

Figure 1. 6: The South African soft flooring landscape in 2004



Source: Lewis (2004:9)

The first wholesaler who went into business rescue was Pioneer Carpet wholesalers in 2006 who were at the time the largest wholesaler and accounted in the 2005 financial year for more than a R135 million of Belgotex sales alone. In June 2006, Pioneer were taken over by Belgotex and the industry saw the end of an era. In 2008 the global credit crunch hit and Belgotex made their first financial loss in the history of the company.

Belgotex stopped manufacturing DOB's in 2005 and with the demise of Pioneer the thought process was that the remaining big four wholesalers would pick up at least R80 million of the Belgotex carpet business that were channelled through Pioneer and the balance R55 million would be taken up by the respective Belgotex factory account holders. This did not happen, and the industry headed for another turning point: the wholesaler price war. The smallest wholesaler of the remaining big four, Carpet Brokers, started to fight for wholesale market dominance driving profits and margins down by offering unsustainable discounts in excess of 35% to the market. The other wholesalers had no choice but to follow suite. In addition to a rising wholesale price war, carpet volumes started to decline dramatically with the rise of a new flooring trend: laminates and later luxury vinyl tiles (LVT).

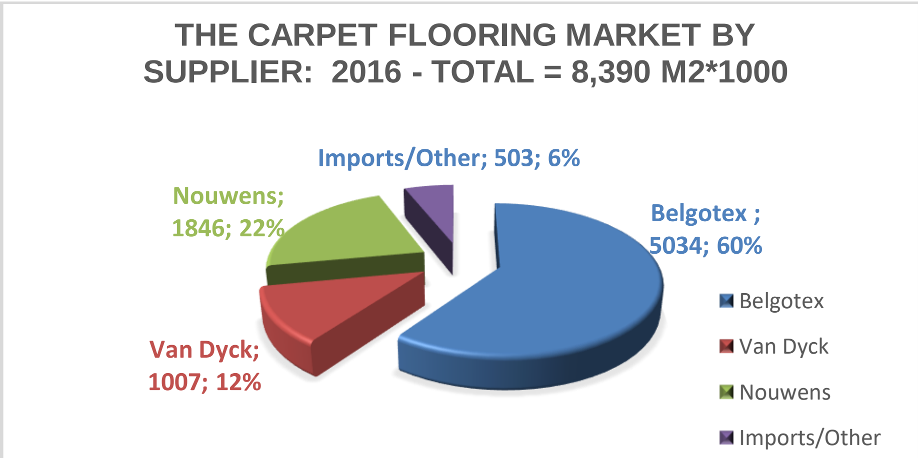
Laminates was a new hard flooring wood-like trend and the consumer market started to drift more towards laminates. The market also saw the rise of big CTM and Tile Africa warehouses and consumers were more and more spoiled for choice. The remaining wholesalers also stopped ordering full rolls from the factories in the more expensive ranges focusing only on the entry level and middle price point ranges. They started to order cut lengths instead of full rolls across the entire product offering from the factories moving towards a just in time supply chain management system. They could afford to do this as the factories stocked in depth and could deliver overnight into Gauteng which continued to contribute to more than 60% off the flooring market sales.

In the era of wholesalers having to purchase full rolls only, the pressure was predominantly on the wholesaler to turn their stock and drive sales. But in the post-Pioneer era the pressure was back on the factories to manage their stock levels and production runs efficiently. This did not always happen with factories and wholesalers sometimes in an out-of-stock situation with consumers having to wait for supply. This opened the doors for other flooring products to infiltrate the market as well as carpet imports to grow, especially in the commercial sector. The factories lead by the market leader, Belgotex, did not adjust their pricing structure to wholesalers during this time and continued to pay stocking rebates to wholesalers who were no longer stoking most of the ranges on offer. Their pricing strategy to wholesalers kept feeding the discount machine, driving industry pricing and margins further down.

With Belgotex, having their eyes so closely on the wholesale trade as a big money and volume spinner, they only half-heartedly invested in technology and product development for the growing commercial market post 1994 and left the door wide open for International commercial carpet tile manufacturers like Interface and Milliken to infiltrate and dominate the South African commercial flooring space.

The wholesale businesses, predominantly residential focus, continued to decline, piling up more and more debt. In 2016 the remaining wholesalers were deeply in debt to the manufacturers. Belgotex were the biggest loser in this whole scenario and had no choice but to offer business rescue yet again to two of the larger wholesalers. Only two large wholesalers in Gauteng remained independent and one continues to show year on year growth with the other wholesaler on a cash only supply contract and only a shadow of its heydays. And so, in 2017 Likewise trading was established with the Colle family being the majority shareholder and the focus predominantly on the importing and distribution of hard flooring (luxury vinyl tiles, cushion vinyl and laminate flooring). Figure 1.6 shows the soft flooring landscape by 2016. Belgotex still holding on to its 60% market share, but the carpet market has shrunk by close to 60% in volume from 2004 (Figure 7).

Figure 1. 7: The South African soft flooring landscape in 2016



Source: StatsSA; BMI-BRSCU Workings (2019)

The decline of the wholesalers saw the rise of the buying groups with a few independent commercial flooring contractors growing rapidly. The largest buying group today with a national footprint is the Top Carpets group, dominating the current retail environment with their buying power. The group started with only seven members in 1989 but only started to see rapid growth with the demise of Pioneer and the decline of the remaining big four in the years that followed. Carpet and Décor who predominantly focussed on Gauteng, Limpopo and Mpumalanga with ten stores also started to show steady growth with KBAC (Kevin Bates and Alberts Carpets) leading the commercial contractor race. In recent years Belgotex shifted attention towards these customer groups as their main source of local sales and even seeking shares in a business like KBAC moving closer to a forward integrated strategy.

Van Dyck and Nouwens, the two remaining manufacturers were not left unaffected by all these events in the market place. Van Dyck did not keep up with technology and today possesses pretty much an out-of-date manufacturing plant, which has forced them in recent years to import more of their ranges from a Belgium based manufacturer, mainly Balta. Nouwens did invest in new machinery and equipment, but lost market share through their pricing structures and customer unfriendly supply methods and could not produce the volumes that would sustain the return on investment from their new equipment. Both, Van Dyck and Nouwens also started to run into financial difficulties and announced their merger plans on 8 April 2019 as a last resort to stay afloat and remain official opposition to Belgotex.

Through the past 36 years the industry has always been in some sort of turmoil with either too many manufacturers, too many wholesalers, too many retailers and distributors and with the market continuing to contract many found themselves in financial difficulties. In 2004 the carpet market was close to twenty million square meters in carpet sales. Today, 15 years later, the local market is closer to seven million square and still too many distributors. The main question remains, how do they all downsize, or survive and grow?

With the official local opposition to Belgotex facing financial difficulties, and too many distributors not investing in the future of the industry, the power to drive the industry forward today sits in the hands of Belgotex who is the “Romatex” of the new millennium in the flooring industry. The hard question to ask if this is a healthy situation for the industry to be in?

The decision-making processes in terms of innovation and design in the flooring industry is very technically driven. The industry remains a product driven industry with substantial investment in high technical equipment. Belgotex is the only remaining local manufacturer with the financial backup to invest in the latest technological equipment and with their international exposure kept abreast with a mindset and thought process of continued investment. The other local manufacturers remained pretty much stagnant in their ways and continued to fall behind in terms of evolution and innovative thinking.

In the past 15 – 20 years laminates came into the market and in the last 10 years the industry also saw the rise of luxury vinyl tiles. Carpet manufacturers started to diversify more into these imported products. The main driving force, to de-risk from carpet manufacturing. This strategy unfortunately brought new problems as each new type of floorcovering has its own set of rules and the industry wanted to continue with a one size fits all approach from past experiences. This approach has led to financial losses by all stakeholders due to floor failures, incorrect fitting practices, transport and distribution challenges as well as importing and lead time constraints enforced by overseas manufacturers. Product forecasting now also became more critical as lead times from date of order to final delivery by overseas suppliers can be up to six months.

The burning questions is if the industry will see even more moves in the distribution channel in the next ten years with smaller players having no choice but being bought out or closed down? Will those stakeholders with a longer-term view in the industry be able to take more risks predominantly in the distribution channel and continue to seek for solutions to consolidate the channel from factory to consumer? Could the bigger groups become even stronger as they continue to pursue sustainability in the distribution channel and seek opportunities for future growth?

Final remarks

The Belgotex story is one of entrepreneurship and growth over the past 36 years. The company has introduced many firsts into the South African soft flooring market space and acted throughout the years as a first mover and experienced many lows and highs. Product launches such as the polypropylene soft collection in 2004 and the Home launch in 2006 failed dismally. The acquisition of the largest wholesaler in the market, Pioneer, in 2006 added unwanted financial pressure on the company prior to the 2008 financial global melt down and the company recorded its first financial loss at the end of 2008.

The flooring market has undergone a structural change in the past decade with ceramic tiles, vinyl and laminate flooring growing market share at the expense of carpeting. This can largely be contributed to the changes in consumer preferences. The question remains whether carpeting can continue to compete in the future flooring domain. Ceramic tiles and other hard flooring solutions has become formidable competitors with ceramic tile companies spending huge amounts of money on advertising and impressive distribution networks and showrooms.

The first CEO of Belgotex, Daniel Dolpire, retired in 2010 and was succeeded by a new CEO, Frank Moffat, who kept the status quo of his predecessor. He was succeeded by a very young and innovative CEO, at the end of 2017, Edward Colle, who introduced many changes throughout the entire organisation within a 12-month time span and continuous to steer the company in a new and possible sustainable future direction. The Belgotex's vision is to be a recognised, world class, African brand showcase through a deep connection with people, product and planet. The current attention is on refining products, sharpening product deliveries and customising systems to offer business partners a better all-round service. Expanding into Africa and beyond will remain a priority and the company plans to accelerate their export strategy with the vision of exports to be 50% of total business by 2025 without losing more local sales volume.

The company has always been a very product-centric operation. In modern society trends are driven from society and the way people are living today. Table 1 summarises industry challenges for Belgotex. Will the factory be able to re-access and rethink their future role in the industry and society? Will they be able to step out of the operations role and also look at the new challenges looming in the distribution channel and can technology assist in providing a more seamless service to their customers and to consumers?

Table 1. 1: Overview of industry related issues

CHANGING INDUSTRY ENVIRONMENT AND CONSUMER BEHAVIOUR

DISINTERMEDIATION & NEW ENTRANTS

- Demise of the wholesalers
- Lack of foot traffic through retail stores
- Changing distribution channels
- Decline of carpet volumes both residential & commercial trade
- Lifestyle changes of consumer preferences
- Rival local manufacturers having financial difficulties
- Effective business to consumer marketing plan
- Increased exchange rate fluctuations

What's at risk?

Is Belgotex missing something?

- The role of technology and social media to reach the consumer more direct
- Evolution towards dis-intermediation of current distribution networks
- New business model in the retail side of things
- Ease of access to global markets by new entrants who play by different rules

- Very active competitors in the luxury vinyl tile space
- Rising labour and manufacturing costs
- Disruptive industry rival's business models
- Similar products at more competitive price structures
- Influx of imported commercial carpets

How long does it take to change an organisation?

- Personalisation of the industry's value proposition
- Speed to market and product innovations
- The use of mobile devices and digital transformation in the selling and marketing space
- The use of Big Data
- Disruptive technologies

INDUSTRY RIVALS AND ALTERNATIVE PRODUCTS

TECHNOLOGY

Chapter 2: External Analysis

2.1 Introduction

In the macro business environment, it is important to understand that no organisation is on an Island. They are all webs of interaction, linking upstream with suppliers or downstream with customers and include social, economic, political and technology actors of all kinds into their mix (Ungerer *et al.,* 2016:40). From an industry perspective, it is clear that all firms are shaped by their industries, which is no different in the carpet industry.

The carpets and rugs industry comprise of global companies that operate by designing, manufacturing and producing carpets and rugs to consumers. A carpet is a textile floor covering that is distinguished from the more general term rug by being fixed to the floor surface and extending wall to wall. Consumers use carpets and rugs for various purposes that include house furnishing to interior décor and improving the look and feel of rooms in homes and offices (Quasar report, 2018:10:15).

Despite strong competition from the hard flooring industry such as ceramic tiles, luxury vinyl tiles (LVT), wood laminates and solid wood, various segments of the global carpets and rugs market like tufted carpets and woven carpets are witnessing a rise in demand. The Quasar global analysis report for carpets and rugs (2018) predicted that the soft floor (carpet) market will grow from $91.24 Billion in 2017 to $115.16 Billion by 2023, at an estimated CAGR of 4.22%.The report contribute this growth to factors such as an increase in middle-class population, growth in demand from the residential and non-residential sectors, and an increase in the renovation and remodelling activities of both the residential and commercial sectors as well as rapid urbanization and globalization. The growing demand has to a large extend been fuelled by the easing global economic crises, which has led to a renewed demand for carpets and rugs. Construction activities in emerging economies are also on the upswing and the BMCW Associates (2019) report has forecasted a global carpet tile consumption of 227.7 million square meters for the global commercial and hospitality market segments.

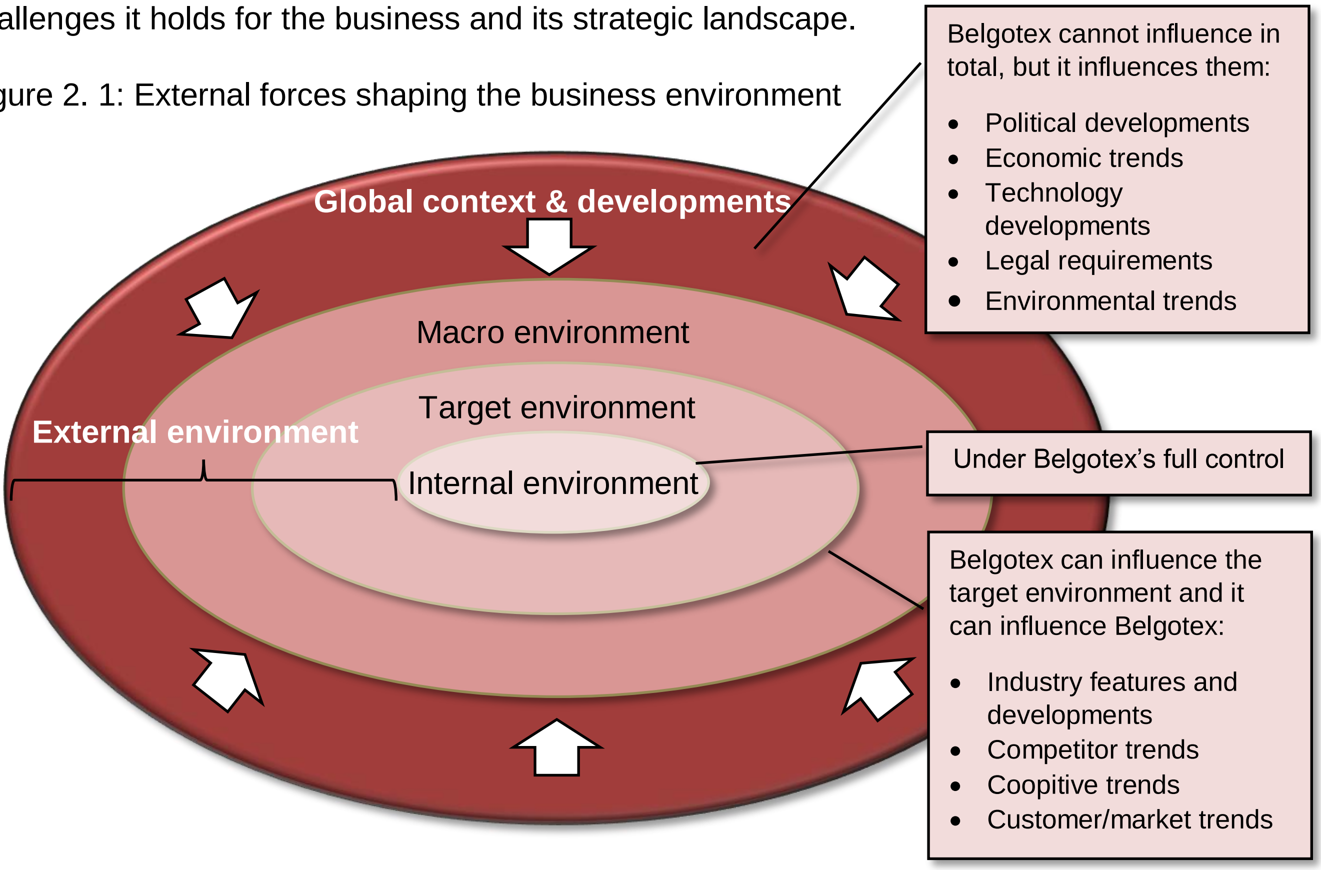
In regions with very cold temperatures, carpets and rugs assist in maintaining the temperature of the floor and the overall room temperature. Carpets also allow aesthetic improvements to the home and office environment. The global market is also driven by the increase in awareness of the use of eco-friendly materials for the manufacturing of carpets (Quasar analysis, 2018).

Belgotex is a South African carpet manufacturer and to understand their market challenges this study will first consider the global and local external carpet market environment.

2.2 Global context analysis of the flooring industry

In the globalized world all firms are influenced by what happens at the international level (Ungerer *et al.,* 2016:41). Globalisation is a reality due to an increase in economic interdependence between countries as well as industries. There is a growing flow of goods and services, financial capital and knowledge across country borders (Ungerer *et al.,* 2016:44). The macro environment of an organisation is affected and influenced directly and indirectly by external local, national and global factors related to political, economic, social, technological, legal and environmental developments and trends. Figure 2.1 shows the components of an organisation's environments and the challenges it holds for the business and its strategic landscape.

Figure 2. 1: External forces shaping the business environment



Source: Ungerer *et al.* (2016:45)

2.2.1. The general macro environment

Globalisation refer to the integration of business activities across geographical and organizational boundaries, offering the freedom to conceive, design, buy, produce, distribute and sell products and services in a manner which offers maximum benefit to the firm without regard to the consequences for individual geographic locations or organisational units (Kirkbride *et al.,* 2001:14). It also connotes increasing economic interdependence as well as the spread of Western (U.S.) cultural influence all over the world (Balaam & Dillman, 2011:539). Issues arising from a global mindset for businesses is:

- Global economies of scale and local customisation;
- Transnational and domestic mind-sets;
- Speed and quality.

The fact that global forces are at work in a world that is changing at an extraordinary pace, cannot be ignored. From technology that continues to leap ahead with no sign of slowing down, multiplying natural disasters accelerated by climate change, to humans encroaching in formally unspoiled habitats (Sarokin, 2019). The manufacturing sector is continuously affected by raw material availability and the rising cost of raw materials, supply chain reliability, labour supply, wages, worker expectations, government regulations and consumer demand.

Sarokin (2019) discusses six forces that he believes will affect business in a rapidly changing world on the global stage:

- **National and International policies**: The tug-of-war of differing policies regarding trade barriers and more open borders will be shaping global trade in the decades ahead. Governmental issues toward the free movement of millions of visitors and laborers in Europe may bring about a big change in businesses who relied on seasonal immigrant labour. The tariff war between the USA and China as well as increased tension between USA and Mexico are some examples of the backlash against increasing globalization. In the carpet industry the ongoing tension in the Gulf region increases pressure on raw materials prices as crude oil is a vital component.

- **Social and environmental issues**: Is global business rapidly conforming and responding to societal issues, ranging from global climate change, reducing carbon footprint, child labour, transformation and cultural diversity in the workplace and many more. Interface, the world's largest designer and manufacturer of carpet tiles has a Mission Zero programme with the objective of eliminating all waste in the manufacturing process of its carpets (Naidoo, 2016:393).
- **Effect of government rules**: Doing business in foreign countries means complying to local government rules and being aware of how bans and restrictions on the use of for example plastic bags, drinking straws, or other materials deemed environmentally undesirable can affect a business. Social concerns, such as paying employees a living wage instead of minimum wage have also become increasingly important.
- **The rapid pace of technology**: The rapid change and complexity of technology calls for a degree of expertise among users and maintenance staff that is not always easy to acquire. Technology has increased productivity and enabled unprecedented ease of communication across the factory floor or across the world, but it brought with it a multitude of concerns. Computer security and breaches cannot only compromise business operations but also exposes a business to enormous legal liabilities. Technology is costly and almost outdated from the day it is installed.
- **Disasters**, natural and otherwise: In a globalized, interconnected world of business, events halfway around the world can readily impact the distribution of material goods, whether it's the flow of supplies into a business or the shipment of finished goods to global customers. Natural disasters such as earthquakes, floods, wildfires, droughts or tsunamis, and even technological failures like Bhopal, Chernobyl and Fukushima can affect thousands of people in a fell swoop and disrupt entire industry sectors for years.
- **Classic economics**: The ability to negotiate prices for material needs within a business, depends mainly on the set prices of goods and services, almost entirely determined by the level of consumer demand and supply provided by businesses competing for the same or similar products. What has changed though is globalization. Local business competes with thousands of providers on Amazon.com or the merchants in China featured on sites like Alibaba.com. Classic

economics of supply and demand still exists but the competition today is pretty much global and the variety of price and choice almost endless.

2.2.2. Global carpet industry market environment

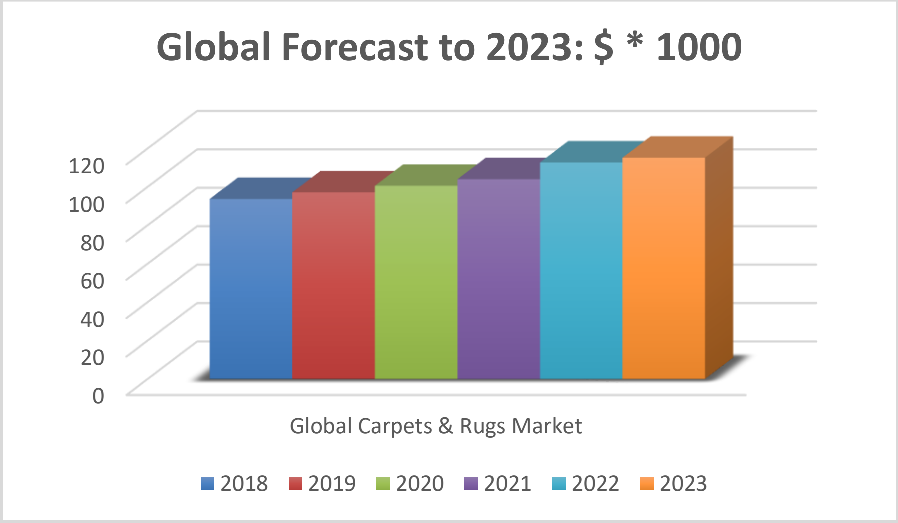
A group of organizations that manufacture, produce and deliver similar products and goods which can be seen to be close substitutes and where customers perceive it to be substitutable for one another, affecting one another in the course of competition, is called an Industry (Ungerer *et al*., 2016:89; Ehlers & Lazenby, 2007:111).

It is important that companies know in which industry it's competing and that they identify competitors, determinants of competition and what the structure of the industry is (Ehlers & Lazenby, 2007:111). This can be done by identifying organizations that have the same type of goals and to identify the key elements for their success (Ehlers & Lazenby, 2007:112).

The global flooring industry is distinctly segmented into residential and non-residential markets. The carpets and rugs industry comprise of companies who designs and manufactures soft flooring solutions to the residential and commercial markets as well as the automobile sector. The Global carpets and rugs market is dominated by players such as Mohawk Industries Inc. (U.S.A.), Shaw Industries Group (U.S.A.), Interface (U.S.A.), Tarkett (France), Beaulieu International Group (Belgium), Milliken (U.S.A.), Dixie Group, Inc. (U.S.A.), Orientals Weavers Company for Carpets (Egypt), Tai Ping Carpets International Limited (China), and Victoria PLC (U.K.), to mention only a few (Anon, 2018). This group of global carpet and flooring players adopted various strategies such as acquisitions and expansions to cater for the needs of the residential and commercial flooring markets (Anon, 2018).

The Quasar global analysis report (2018) expects growth for the carpet industry as shown in figure 2.2. There will be a steady increase in year on year sales with a positive outlook for future carpet sales according to the analysis.

Figure 2. 2: Global carpets and rugs market forecast to 2023



Source: Quasar Analysis Market Research Reports (2018)

Firms cannot do anything but to comply with the pressures of their industry, but they do have the choice of being an industry influencer (Ungerer *et al.,* 2016:41). In the global arena Interface is the leading influencer of sustainable business practices with a vision of transforming Interface from a plunderer of the earth to an agent of its restoration (Naidoo, 2016:393). Sustainable manufacturing processes is an area of concern for global carpet manufacturers and in the past 20 years Interface has set the pace for global carpet manufacturers to move towards a zero-waste strategy.

The industry has been adversely impacted by the declining residential and commercial construction sectors in the past decade. Although it is expected for the building sector to pick up pace in the next five years it will be those manufacturers who take initiative to develop new and innovative products, merge or acquire other firms, improve production processes, enhance supply links, introduce expanded product mixes and develop export and niche markets who will be in a strong position to achieve growth in the future (Quasar analysis, 2018).

2.2.3. Global market SWOT analysis

Considering the current situation of the global residential and commercial soft floor industry and based on the information from both the Quasar (2018) and BMCW (2019) reports, it is important to also provide cognitive clarity about the overall health or peril of the global soft floor industry through a SWOT analysis (Table 2.1).

Table 2. 1: Global carpet industry SWOT analysis

	Positive factors	Negative factors
Internal factors	**Strengths** • Leading manufacturers continuous drive for sustainable manufacturing processes • Strong global carpet brands and high-quality products to choose from • Strong global carpets and rugs eco system • New increased state of the art machinery in some of the leading global manufacturers' production facilities, shows positive growth prospects for carpet tiles	**Weaknesses** • Maintenance concerns in both commercial & residential spaces • High manufacturing fixed costs • Disposal of wastes challenges – bulky materials takes up precious landfills space annually • Expensive recycling processes & lack of recycling infrastructure for growing polyester carpet manufacturing
External possibilities	**Opportunities** • Rise in the number of construction activities in developing economies • A rise in the number of renovation and remodelling activities • The growing interest of consumers towards interior decoration • Rapid urbanization & globalization • The growing importance of organized retailing • The growing hospitality industry opening up carpet tile growth opportunities • Alternative 100% recyclable tile backing systems and improved yarn systems • Continuous technology and design innovation by manufacturers	**Threats** • Global political uncertainties, for example, the impact of Brexit on European manufacturer exports • Exchange rate fluctuations and import duties on raw materials and rising prices of raw materials • Increasingly high distribution costs • Growth of alternative flooring such as LVT's in both the commercial and residential space

The global SWOT analysis shows that although threats like the rapid annual growth of LVT, rising manufacturing costs and a greater demand on sustainable manufacturing processes are looming, there are still many opportunities to focus on. Out of the industry's internal strengths it should be clear that the industry should focus on offensive strategies to exploit external opportunities. The industry still offers many competitive advantages such as the enhancement of the aesthetic appeal of an office, hospitality or educational environment as well as sound and thermal insulation. These are critical differentiators in the commercial space that the industry must continue to exploit to lock LVT and other hard flooring competitors out of soft floor spaces. The industry can also harness complimentary products such as LVT ranges in certain areas of the commercial flooring environment such as pause or bathroom areas. This can unlock more future value and make the carpet tile business more sustainable.

Although carpet tile has been a dominant floor covering in the global commercial space, it is the growth of LVT (luxury vinyl tile) that has grabbed headlines as the fastest growing product category in both the commercial and residential flooring space globally (BMCW, 2019). LVT has hurt the growth of carpet tile and wall to wall carpets in general and is seen as the first real competitor to carpets in global residential and commercial spaces (BMCW, 2019).

LVT imitate the looks of natural materials such as wood, stone, slate, and metallics for example. Carpets, on the other hand, has numerous benefits such as modular, styling, texture, warmth and acoustics and the best strategy going forward would be a twinned marketing approach (BMCW, 2019). Designers and carpet producers should work together in the future towards a coexistence approach, between LVT and carpets sharing room space in the same residential or commercial installation.

The BMCW (2019) forecast, considering recent global trends, that LVT will be 40% of carpet tile volume in 2019. A critical factor for the continued dominance of carpet tile in commercial spaces will be maintaining market share in the refurbishment commercial office space as LVT could become more suited in certain areas, previously floored in carpet tile (BMCW, 2019).

2.2.4. The South African flooring landscape

The global economy has created intense foreign competition for South African businesses and manufacturers as seen in the SWOT analysis (Table 2.2) of the general South African manufacturing industry. South Africa has focussed heavily on manufacturing and more so on the production of non-essential goods (Anon, 2019). This means a severe downturn in the economy can have a crippling effect on the local production of carpets for example, as carpets can be seen as non-essential products. The current exchange rate does create opportunities though for local manufacturers to explore the export market for future growth opportunities.

Table 2. 2: SWOT analysis of the general South African manufacturing industry

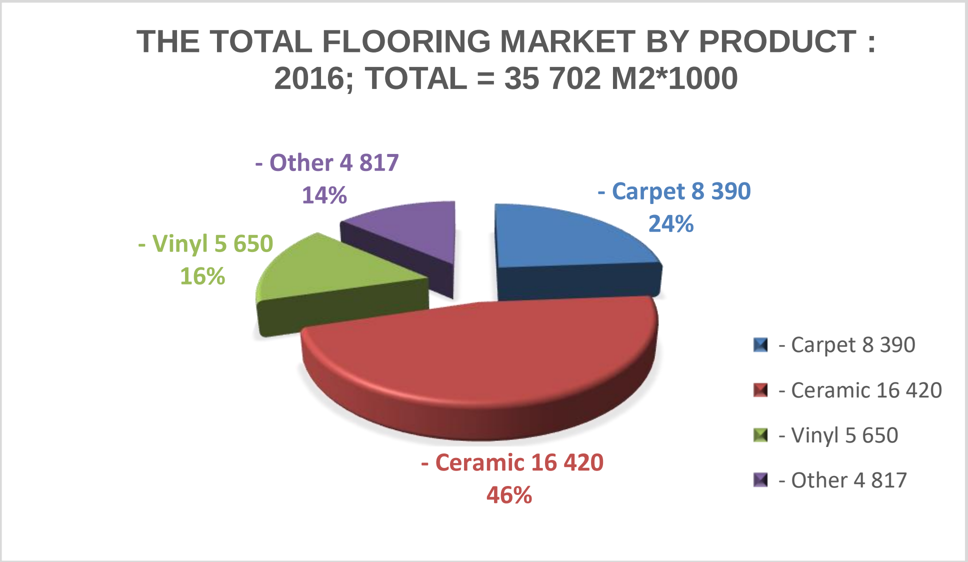
	Positive factors	Negative factors
Internal factors	**Strengths** • The S.A. manufacturing industry are relatively stable • Industry have also managed to maximise efficiency in past decades through productivity of workers and modern technology to maximise profits • S.A. has world-class infrastructure, exiting innovation, R&D capabilities and an established manufacturing base • The industry is actively involved in the development of new green technologies, creating sustainable jobs and reducing environmental impact	**Weaknesses** • Much of the industry is built on the production of non-essential goods • It's a mature industry. There is heavy competition and little room for growth. It might be a cash-cow for those who are already in it but unattractive for new entrants • Set prices such as high electricity tariffs and petrol prices, form part of macro policies that affect manufacturing sector and economy negatively • An adversarial relationship between government, labour and business severely hampers a coordinated approach for the sector to grow positively
External possibilities	**Opportunities** • One of the top three multiplier sectors in terms of value addition, job creation, export earnings and revenue generation • Technology and bio-technology industries offer growth opportunities with higher profit margins	**Threats** • Over 300 000 SA manufacturing jobs have been lost or exported to other countries through offshoring since 2008, with the majority going to China • SA business environment has worsened while administered prices in Brazil, India,

• Foreign middle-class markets provide opportunities for local technology and biotechnology manufacturers • The future of manufacturing in SA lies in the country's ability to become a stable business destination, globally competitive and beneficiate locally produced products	China & Russia have decreased by over 36% in the last decade • Electricity costs have been raised by over 170% and it is predicted that it will continue to escalate mare than double the forecasted inflation rate • The local domestic market is vulnerable to imports from China, India, Brazil & other countries which offer much higher incentives and protection to their manufacturers • Large low-wage high-productivity manufacturing industries from nations like China, India, Brazil is major threat for local industry • Frequent strikes indicate that the collective bargaining system is placing pressure on local manufacturing

The focus now shifts to the local flooring market. The forces of globalization have changed the competitive landscape of the flooring industry also in South Africa over the past decade, offering attractive new opportunities, but at the same time introducing new competitive threats (Thompson *et al.,* 2017:244). These external factors represent the major factors that will influence the current and future strategic decisions and actions of an organisation such as Belgotex. Figure 2.3 shows the total flooring market including ceramic tiles, vinyl and other floor types such as wood laminates for the 2016 financial year was close to 36 million square meters. The carpet industry was estimated to be 24 percent of the total flooring market including the residential as well as the commercial flooring segments.

The South African soft floor market follows the same trend as the global flooring market and is distinctly segmented into residential and commercial. The commercial market is further segmented into corporate and commercial office spaces, the retail environment, hospitality and leisure, educational and healthcare, government, institutional and finally transport. Local soft floor manufacturers are Belgotex, Van Dyck Floors, Nouwens Carpets, MONN, and Crossley Axminster. All these local manufacturers as well as the mentioned imported brands such as Interface, Mohawk and Milliken compete for the 24 percent of the market as shown in figure 2.3.

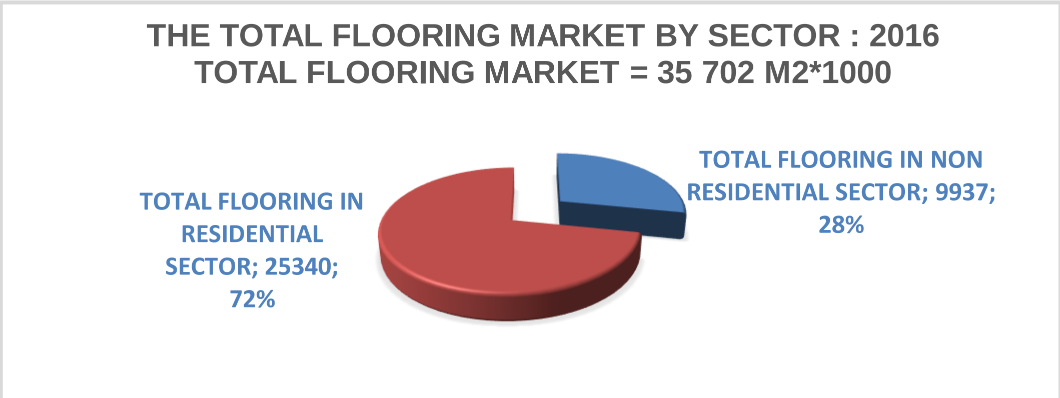
Figure 2. 3: The total flooring market in South Africa: 2016



Source: StatsSA; BMI-BRSCU Workings (2019)

Figure 2.4 shows the estimated percentage split between the residential and commercial market sectors. Although the commercial sector is smaller, the price points and profit margins of the commercial flooring products are higher. The commercial market remains a market sector which shows growth for local manufacturers with ranges like Tufted tiles selling at R350 per square meter and higher (Belgotex, 2019).

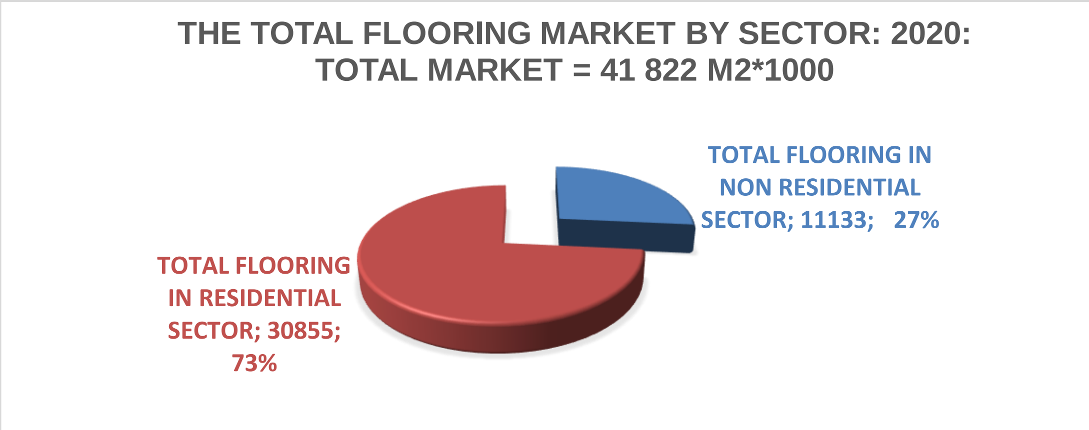
Figure 2. 4: Total South African flooring market by market sector: 2016



Source: StatsSA; BMI-BRSCU Workings (2019)

The BMI market report forecasted a growth of 17% from 2016 to 2020 in the South African total flooring industry (figure 2.5). If one can use this as an indication of percentage growth for all flooring types within the South African flooring sector, then total carpet sales potential should be 9.8 million square meters by 2020, a 17 percent increase from the carpet segment in 2016 (figure 2.3).

Figure 2. 5: Total flooring market forecast: 2020

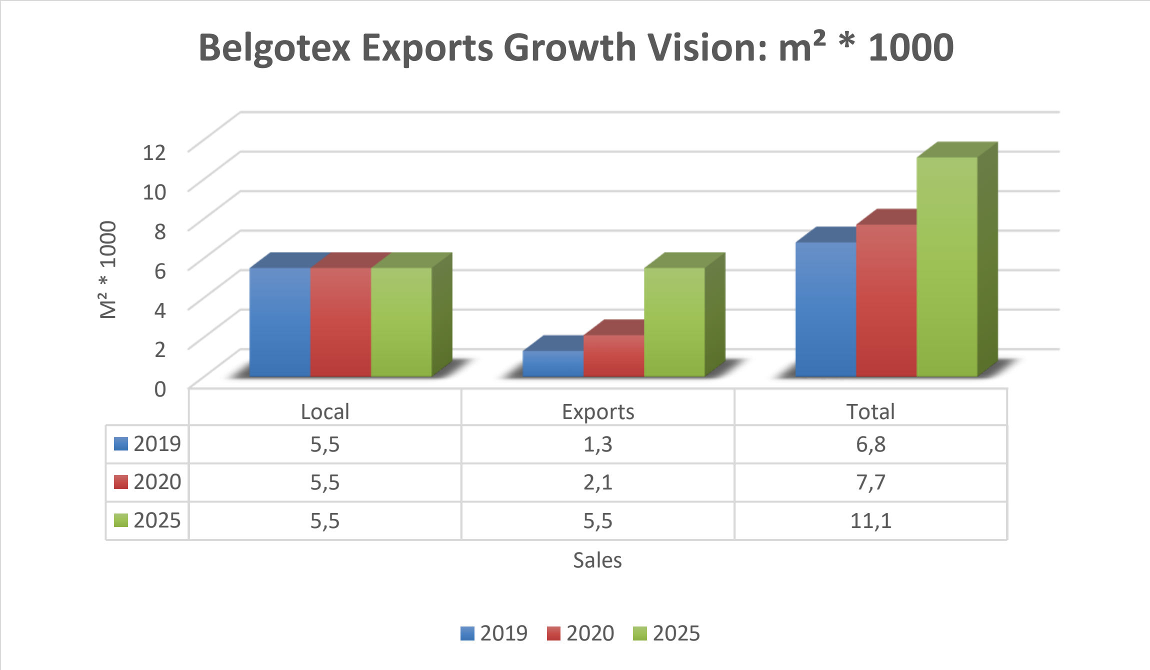


Source: StatsSA; BMI-BRSCU Workings (2019)

Within the flooring industry all competitors have more or less the same resources which enables them to pursue similar strategies. Global events, developments and standards cannot be ignored by local businesses (Ungerer *et al.,* 2016:49). Belgotex can be defined as a multinational corporation. A multinational corporation is a business that is extensively involved in international business operations (Heizer *et al.,* 2017:87). Belgotex export product to more than 40 countries and has cemented their status as a global player. According to their CEO, Edward Colle, the company has a vision for their export sales to account for 50% of annual turnover by 2025.

The company has adopted an international strategy in recent years. The main focus is on the commercial sector with finished products into Africa, Australia, New Zealand, Middle East, India and Brazil. The company need to generate forex, Colle explained, and he sees future growth and spreading the local risk through the growth of foreign exchange by means of exports. Figure 2.6 shows how Belgotex plan to reach this goal. Belgotex would like to maintain their local sales whilst growing their export opportunities through commercial graded products.

Figure 2. 6: Belgotex 2025 Export Vision



Source: Belgotex (2019)

Goods and services flows, capital and labour flows, information and technology flows, and financial flows all link South Africa and other countries (Janse van Rensburg, *et al.*, 2015:522).

One way of revealing different competitive positions of industry rivals is by using a strategic group analysis. The question one wants to answer is how competitors stack up against each other given their position choices. Table 2.3 indicates major local and global competitors all fighting for market share in South Africa. There are more competitors, but for the purpose of this study the focus was on carpet manufacturers having an impact on the local market. Firstly, the table gives an indication of each manufacturer's product variety (narrow or wide), price range (high, medium, low), quality focus (high, medium, low) and the distribution channel approach including the number of outlets and geographical spread. Secondly the focus is on integrated capabilities and service levels. The service levels indicate whether the factory reach the consumer direct by also offering a fitting service. Lastly the focus is on market share locally and globally. Other is not included under global and makes up the missing 41%. The analysis again shows that Belgotex does occupy a strong market position in the South African environment.

Table 2. 3: Local and global competitor group analysis

Strategic group map	Local					Global				
	Belgotex	**Van Dyck**	**Nouwens**	**MONN**	**Other**	**Interface**	**Shaw**	**Milliken**	**Mohawk**	**Tarkett**
Product variety	Wide	Wide	Narrow	Narrow	Wide	Narrow	Wide	Narrow	Wide	Wide
Price range	Low-High	Low-High	High	High	Medium	Medium-High	Low-High	Medium-High	Medium-High	Medium-High
Quality focus	High	Medium	High	High	Medium	High	High	High	Medium	High
Distribution channel:										
Number of outlets (direct accounts)	243	300+	350+	350+	300+	America Asia Europe Africa	America Asia Europe Africa	America Asia Europe Africa	America Asia Europe	America Asia Europe Africa
Vertical integration level	Partial	Partial	Partial	Partial	Partial	Partial	Full	Partial	Partial	Partial
Service	Limited	Limited	Limited	Limited	Limited	Limited	Full	Limited	Limited	Limited
Market Share	50%	25%	5%	5%	15%	22%	18%	7%	6%	6%

The local industry should follow the lead from the international carpet industry and develop offensive strategies out of its internal strengths as well as the external opportunities in the market to grow and maintain a competitive advantage. The Belgotex first mover strategy has enabled them to maintain their 60% market share in the past decade. Local manufacturers like Belgotex should continue to search for differentiating strategies and opportunities though if they want to remain relevant in the general flooring industry. Innovative products and designs that stays abreast with international and local flooring trends should be researched and developed on a continuous basis. As with the international market focus should be on the development of new and innovative products, improved and sustainable production processes, enhanced supply links and exploring export and niche markets for future growth opportunities.

Two strategic group maps were developed out of the local competitor analysis. Figure 2.7 focus on product variety and price range and Figure 2.8 focus on service and quality. The strategic group maps can assist in the analysis of the real competitive rivalry within the industry. Both strategic group maps indicate Belgotex as a dominant player under current market conditions. The danger for a company like Belgotex is to become complacent and to be caught up in a strategic drift and not to act on the changes in the external market environment.

Figure 2. 7: Local industry strategic group map 1: product and price focus

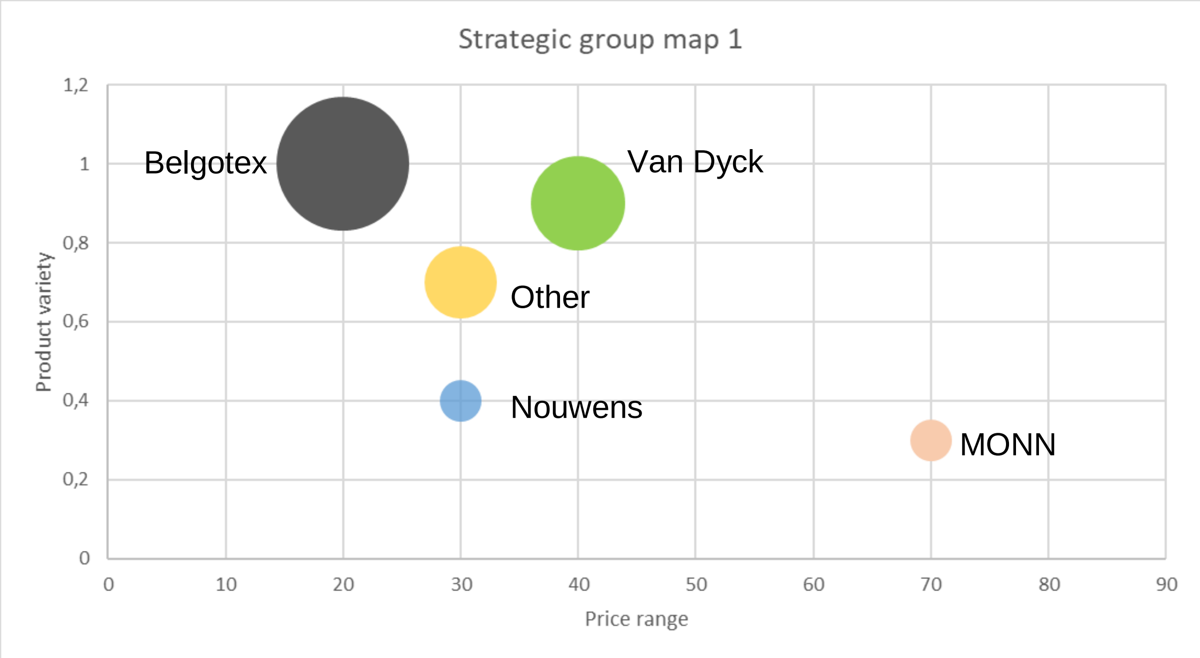


Figure 2. 8: Local industry strategic group map 2: service and quality focus

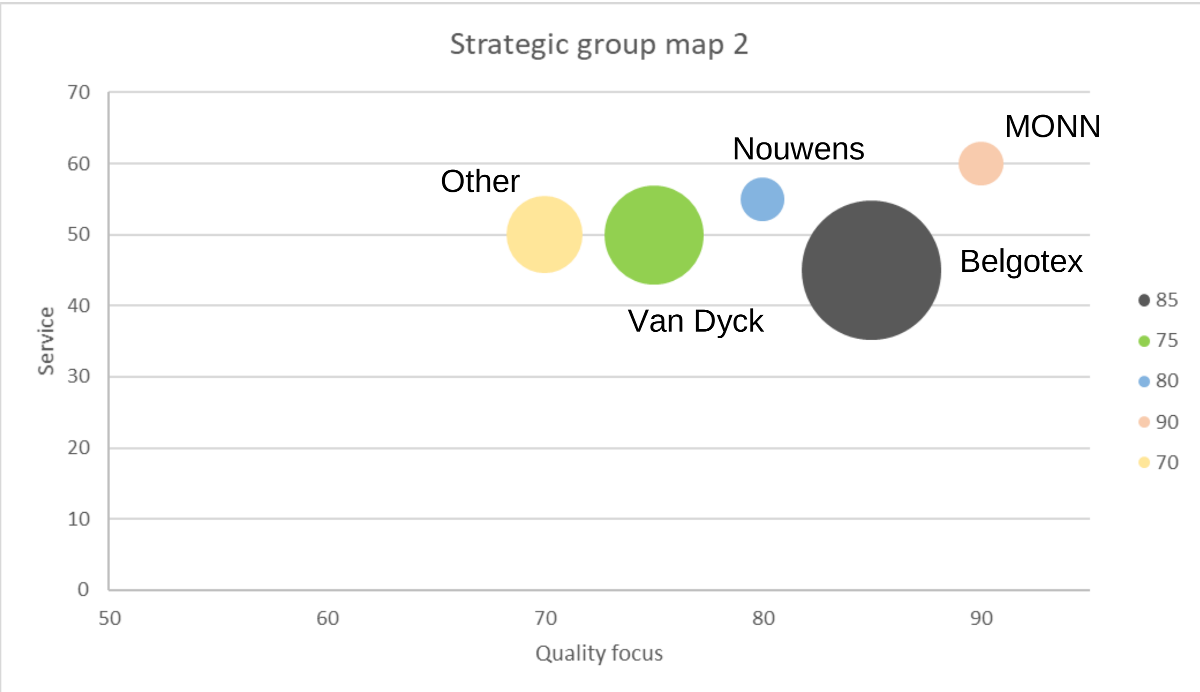


Table 2. 4: SWOT analysis for the local carpet manufacturing industry

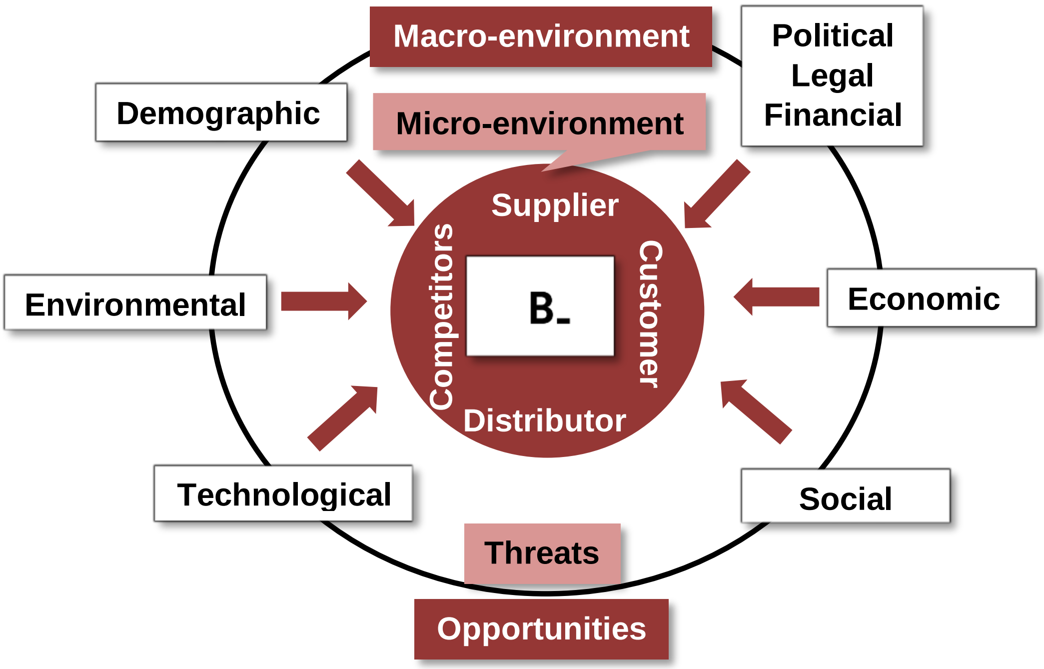
	Positive factors	Negative factors
Internal factors	**Strengths** • Belgotex' increased investments in state-of-the-art machinery and production facilities, shows growth prospects for custom broadloom carpets for the hospitality industry as well as the production of tufted tiles for the growing commercial market, local and export • The Belgotex sustainability program, 6 Star building and Green Tag certification • Investments by stakeholders throughout the supply chain, such as manufacturers, buying groups and independent retailers and new Likewise wholesale distributor to grow the industry • The Belgotex floor fitter training academy • Belgotex, through BIG connected to global trends and initiatives and first mover strategies	**Weaknesses** • Maintenance concerns in both commercial & residential spaces • High manufacturing fixed costs • Lacking technology to implement the cradle-to-cradle effect. • Overall high perceived cost of carpeting versus alternative flooring solutions such as entry level laminates and ceramic tiles. • Succession plans by flooring retailers
External possibilities	**Opportunities** • The drive for sustainability • A rise in the number of renovation and remodelling activities commercial and residential • The growing interest of consumers towards interior decoration • Rapid urbanization & globalization • Rise in the number of construction activities in Sub-Sahara Africa	**Threats** • Local political uncertainties, high unemployment rate, junk status economy showing GDP growth of less than 1% in 2018. • Exchange rate fluctuations and import duties on raw materials and rising prices of raw materials • Increasingly high distribution costs • Existing distribution channels

• Exchange rate creating opportunities for exports • The growing importance of organized retailing and or forward integration • The growing hospitality industry opening up custom broadloom carpet growth opportunities • Alternative 100% recyclable tile backing systems and improved yarn systems • Nouwens and Van Dyck Carpets joining forces showing intent to stabilise rising manufacturing costs and streamline production processes and logistics • Continuous technology and design innovation by manufacturers	• Growth of alternative flooring such as LVT's and laminates in commercial and residential space • Increase of small businesses importing alternative flooring solutions concentrating on the main economic hubs such as Gauteng and Cape Town • Affordable options from China

2.3. PESTLE analysis

The Macro forces, largely uncontrollable, that impact a business is social, demographic, economic, political, legal, financial, technological and ecological in nature, and include rivalry from direct market competition. These forces shape to a large extent the character of opportunities and threats facing a business (Fahy & Jobber, 2015:34). Unless one understands the external environment and the forces influencing it, successful future-fit planning and the identifying of opportunities will not be possible. It is therefore important to do an environmental scan through gathering data and information of competitors, suppliers, customers and distributors as well as the PESTLE (political, economic, social, technology & environment) factors. This information can lead to the identification of opportunities or threats that can ultimately lead to finding a consumer need that a business can take advantage of profitably (Lamb *et al.,* 2017:43).

Figure 2. 9: PESTLE analysis



- **Social**: In recent years the South African flooring landscape has moved predominantly to hard floor solutions. The trends of yesteryear with carpeting throughout the entire house has been reduced to predominantly bedrooms only. People also work longer hours and prefer perceived lower maintenance products as alternative flooring solutions to carpets. In a fast pace world décor trends also changes quickly with carpets still being the most affordable and fastest solution to change the look and feel of a home. This advantage needs to be exploited.
- **Demographic**: When one considers the social environment, careful consideration must also be given to demographic changes and cultural differences such as linguistic and connotative implications, socio-cultural customs and taboos, within the South African business landscape. Being a local soft flooring manufacturer, there is a good understanding of local socio-cultural customs and opportunities through machine capabilities that can offer the market African-trendy designs and styles. The flooring landscape has changed from a predominantly soft floor environment to a continuously growing hard floor environment in South Africa leaving scope for growth in the loose carpet market segment, converting wall-wall carpeting into stylish looking rugs for example. New homeowners across all culture barriers can be addressed in unique ways with innovative products and designs.

- **Economic**: What impact does economic forces like decreasing economic growth and development, unemployment, cost of labour, interest- and exchange rates variations, as well as taxation and inflation have on creating a healthy supply and demand environment or on consumer purchasing power? The current economic climate has added pressure on consumer spend and many residential consumers has put home improvements and upgrades on the back burner with a negative effect on the growth of flooring sales in the South African environment.
- **Political, legal and financial**: Political forces and interference from government in South Africa do not only determine some of the rules of businesses, but also create political uncertainty that can influence marketing and business decisions and future investments from manufacturers. Local manufacturers, Nouwens, Monn and Belgotex are all family owned business and struggles to meet government BBBEE requirements for example. The resent elections also had a negative impact on sales in the first quarter of 2019 as consumers spend were down year on year. **Legal**: Consideration must also be given to legislation like the consumer protection act and legal regulation on price and sales conditions, product and service content, and packaging requirements can all play a vital part. **Financial:** current exchange rate uncertainties and rising oil and petrol pricing added pricing pressure and forced flooring manufacturers to announce more frequent price increases in 2018. This is somewhat stabilised in 2019, with no further price increases been announced in the first quarter of 2019. Markets like China and European manufacturers exporting inexpensive broadloom carpets and carpet tiles for both the residential and commercial markets to South Africa, adding pressure on local manufacturers profit margins. Continuously seeking more cost-effective production methods and product design must be at the centre of research and development to counter low-cost imports for all local manufacturers.
- **Competition**: The Soft flooring market is a very price sensitive market with local rivals having a copy and low-cost strategy. Local rivals produce all very similar products, making it easy for consumers to switch to a substitute product based on a lower price. Apart from local rivals like Van Dyck and Nouwens, more and more global manufacturers like Interface, Mohawk, Bolon, Ege, Desso, Balta as well as many vinyl, laminate and grass manufacturers are finding a footprint in South Africa.

- **Technology**: In the past two years local manufacturers as well as buying groups like Top Carpets shifted their media strategy from print to digital media platforms for brand building and advertising purposes. Social media platforms such as Facebook, LinkedIn and Instagram have been popular platform to grow their brand and spread the ideas of latest trends and ideas, together with an innovative and interacting websites.
- **Environmental**: Global warming and government regulations have added pressure on manufacturers in recent years to seek out ecologically sustainable manufacturing methods and developing eco-friendly products. In future flooring manufacturers will need to ask less of the planet in all their manufacturing and operational plans. The Belgotex green journey started in 1991 and confirms the company's long-term sustainable growth vision and gives them an advantage in the market place and the search for more eco-friendly products.

2.4. Porter's five forces

Belgotex, Van Dyck Carpets, Nouwens and MONN are all a strategic group of companies within the local soft flooring industry. A strategic group is a cluster of companies similar to each other, that offers similar goods to similar customers. Their main focus is on designing, manufacturing and distribution of high-quality broadloom and modular carpet tiles, modular carpet ranges, rubber, underlay and artificial lawns. There are only a few local soft flooring manufacturers, but many overseas manufacturers have found South Africa an attractive market, and in recent years the market has seen an influx of imported residential and commercial carpets as well as other products. This has shifted the flooring landscape in the last decade from a predominantly oligopoly with high cost entry barriers and strong local manufacturer control to a monopolistic competition market with many imported similar, but not identical products at attractive price points blurring the barriers of entry into the market.

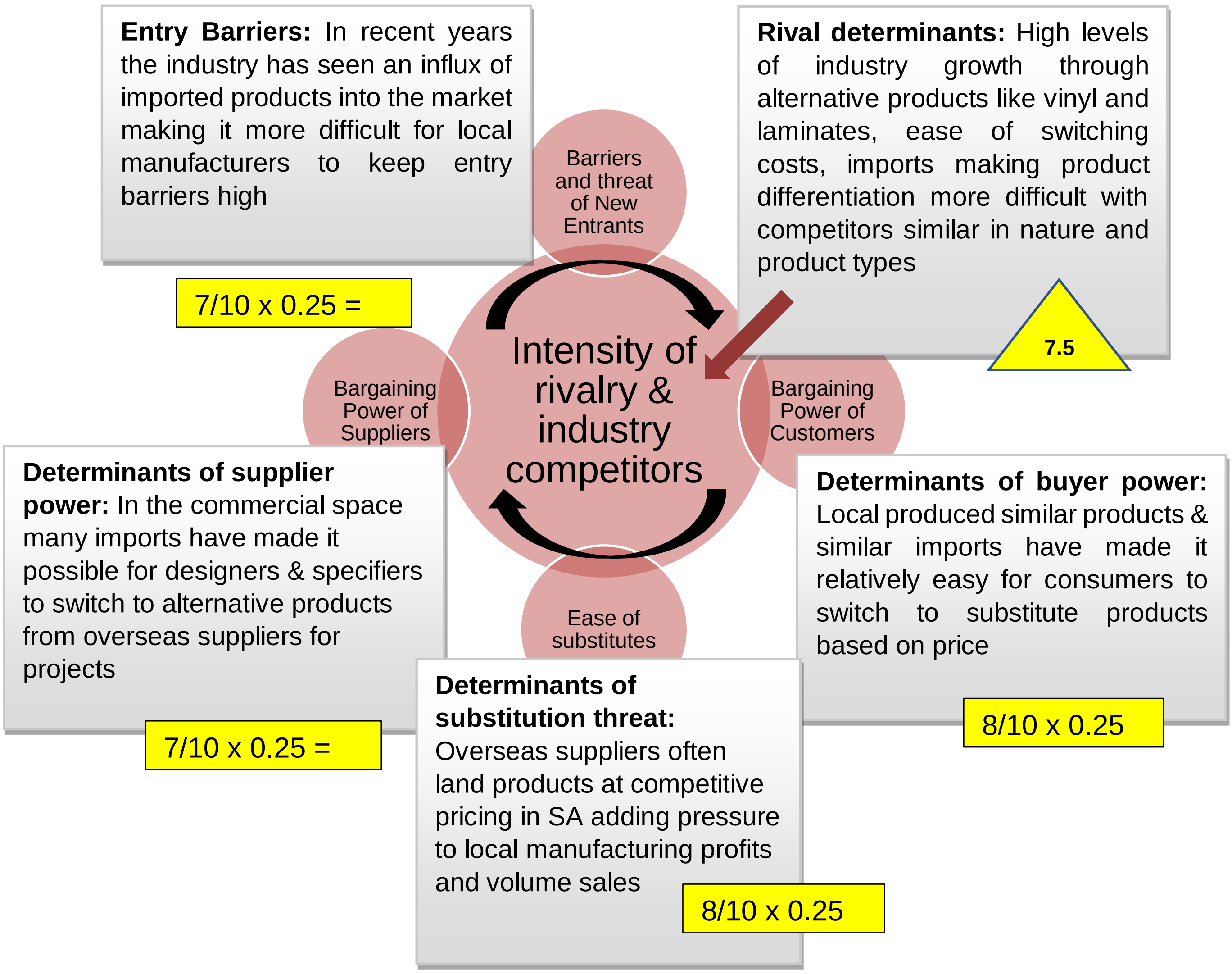
According to Ehlers and Lazenby (2007:112) the industry structure is built on characteristics that give the industry its unique character and can be identified by exploring four variables:

- The extent to which industry sales are dominated by a few organizations.
- Economies of scale due to increase in volume.

- Product differentiation.
- Barriers to entry.

Michael Porter's five forces model (figure 2.10) shows the degree of the competition in the South African soft flooring market space. The intensity of competitiveness determines the profitability of an industry or supply chain (Evans, 2013:92). If one applies a strength rating out of ten to each one of the forces and add an importance weight factor to each determinant, one can determine how fierce the competition rivalry in the market place is. Judging by the outcome of the analysis of the South African Flooring market, a 7.5 out of 10 rating, it shows the market is very competitive. Rivalry in the soft flooring market space is fierce and manufacturers competes with many other flooring types and similar imported product. The five forces model (figure 2.8) emphasizes the collective strengths of these industry forces and determine the ultimate profit potential of an industry (Ehlers & Lazenby, 2007:111; Evans, 2013:92; Thompson *et.al.,* 2017:67).

Figure 2. 10: Five Forces shaping the South African soft flooring environment



- **Potential entrants:** The industry has seen an influx of importers, making it difficult to keep entry barriers high. Customers must believe that the manufacturers' product is unique, and they must be loyal towards the brand so that it is difficult for new entrants to change the customer's perception of uniqueness.
- **Industry competitors:** Belgotex, Van Dyck Carpets, Nouwens, and MONN are the main local industry competitors. To outsmart their rivals' high levels of growth through product differentiation can result in a competitive advantage. It will be difficult for any company in the strategic group to exit the industry due to highly specialized assets as it is linked to a particular business and location. The Van Dyck factory is situated in Durban, Belgotex in Pietermaritzburg and Nouwens and MONN based in Harrismith.
- **Buyers:** Buyers refer to the customers of the various factories who buy soft flooring solutions for residential, commercial office, retail spaces, hospitality, high spec health and education centres, landscaped and sport environments. Customers can easily switch to substitute products, locally produced or imported. The customer is not married to a specific supplier and will buy where they get the best quality and value for money. There is also a change in consumer trends and buying behaviour and ceramic tiles, wood laminates and luxury vinyl tiles are all alternative flooring solutions that are taking market share away from the soft flooring industry.
- **Suppliers:** There has been a move from local suppliers to overseas suppliers for projects due to competitive pricing. The supply of raw materials, equipment and machinery is of importance for all local manufacturers. A supplier group is powerful when it is dominated by a few large companies and is thus more concentrated than the industry it sells its products to. Switching cost to another product or supplier can be high and could be an advantage to the market leader.
- **Substitutes:** A substitute product is a product from another industry which can perform a similar function, like ceramic tiles which is a hard flooring solution attractive to the market and at affordable prices. Substitute products pose a threat to carpet manufacturers as the switching costs for customers are low. To withstand this threat manufacturers can differentiate in dimensions such as price, quality, after-sales services and speed of delivery.

Out of the Porter's model (figure 2.10) it is important to note the following:

- The threat of new entrants into the market from a manufacturing point of view is low as the cost of setting up a new manufacturing plant and the import of machinery and equipment is too high. Nouwens and Van Dyck announced merger talks in April 2019, mainly due to old machinery and equipment, high rising electricity and labour cost and is an indication that economies of scale is not in favour of new manufacturing entrants into the market. Through the years the Belgotex strategy has been a continuous investment in equipment to improve efficiencies and stay ahead of the competition.
- The threat for local producers lies rather in the threat of imported substitute finished goods from global manufacturers such as Mohawk, Shaw, Interface, and Milliken, to only mention a few. This threat also increases when the exchange rate strengthens against major global currencies. Local customers are furthermore moderate in their brand loyalty. Economies of scale are often in favour of imported products due to local labour policies and rising cost of labour and production. These factors therefore create a climate for imported goods into the market.
- The bargaining power of suppliers is moderate as manufacturers have options to bargain best deals from suppliers. Belgotex for example has been able to negotiate good tariffs from local polypropylene manufacturer, SASOL. This has enabled them to manufacture cost effective polypropylene products with the latest technology and equipment.
- The bargaining power of buyers and competing firms is high due to the fact that competitors are able to offer similar products to consumers and engage in price cuts to boost volume. Van Dyck Flooring for example manufactures Floorpoint 980 that competes with the bread and butter line, Berberpoint 920 manufactured by Belgotex, and often undercut the Belgotex price to boost their volume sales. Although Belgotex is a dominant player in the soft flooring market it is the increase of alternative products such as laminates, LVT's and ceramics in a changing consumer behaviour environment that is threatening volume sales.

The current competitive environment of the local industry appears unattractive for earning good profits as rivalry is vigorous from many alternative flooring product suppliers such as LVT's, laminates and ceramics, imported carpet substitutes as well as price fighting amongst local manufacturers with similar products. Suppliers such as Azura, Wanabiwood, LG Hausys LVT's, Claassen laminates, Kronopol, Krono original, Kronotex, Traviata, Kaindl, Finfloor, to only name a few, offer attractive looking alternative well priced hard flooring products to the market. Both Van Dyck and Nouwens have been falling behind the market leader, Belgotex, in recent years forcing them to follow a strategy of fighting on price and driving price points down. As industry rivals, focus should rather be on brand recognition and brand capital, than on a price war. The higher the competitive forces collective impact, the lower the profit potential of the industry as often seen in textile industries for example (Ungerer *et al.,* 2016:101).

The merger talks between Nouwens and Van is showing intent from the opposition to reposition themselves in the market as a much stronger force. The Nouwens factory has also invested in new technology in recent years allowing them to reposition them for the future (Todd, 2019). The factory is also situated in Harrismith, which is closer to the largest market, Gauteng, offering better logistic capabilities as a competitive advantage.

2.5. Industry success factors

To be judged successful, attacks on a market leader such as Belgotex, do not have to result in making the aggressor the new leader; a challenger may 'win' simply by becoming a stronger runner up (Thompson *et al.,* 2017:202). If one considers the local soft floor market this will entail opposition to improve current product quality, distribution networks and overall customer service for example. The industry still shows prospects of future carpet growth and opportunities, yet it will depend partly on how industry players capture these opportunities in various market segments. Winners in an industry should not engage in destructive value-destroying industry battles but think win-win to increase the potential profit pool (Ungerer *et al.,* 2016: 101). Adjacent innovation initiatives for example leverage incremental product development and resources that a company does well into an adjacent market that is new to the organisation and thereby serves new customers (Thompson *et al.,* 2017:292). This could be the development of a cost-effective tufted tile created specifically for the growing private school market segment in South Africa, utilizing the hard wearing and acoustical benefits of carpeting in classrooms above traditional hard flooring for example.

Speed to market should be the company's most important competitive advantage. Companies who seek static differentiator factors will lose out in these competitive market conditions comparing to those companies who can adapt to change in a short space of time. Being more proactive than reactive in current and future market conditions will define a company's position as market leader in the future. Table 2.5 shows a key success factors (KSF) rating tool that gives evidence of the fact that Belgotex is still a dominant player in the current South African Soft Flooring environment.

Table 2. 5: Belgotex Competitive Position

		Belgotex		**VDC**		**Nouwens**		**Imports**	
KSF:	**Weight**	**Rating**	**Score**	**Rating**	**Score**	**Rating**	**Score**	**Rating**	**Score**
Product Quality & Reliability	0.10	4	**0.40**	2	**0.20**	4	**0.40**	4	**0.40**
Cost Factors	0.08	3	**0.24**	3	**0.24**	3	**0.24**	4	**0.32**
Differentiation factors	0.12	4	**0.48**	2	**0.24**	2	**0.24**	3	**0.36**
Customer Service	0.10	5	**0.50**	2	**0.20**	2	**0.20**	5	**0.50**
Customer Loyalty	0.10	3	**0.30**	3	**0.30**	2	**0.20**	4	**0.40**
Product Service network	0.06	4	**0.24**	3	**0.18**	1	**0.06**	4	**0.24**
R&D spending	0.11	5	**0.55**	1	**0.11**	1	**0.11**	5	**0.55**
Financial position	0.11	5	**0.55**	1	**0.11**	1	**0.11**	3	**0.33**
Employee retention	0.10	4	**0.40**	3	**0.30**	1	**0.10**	2	**0.20**
Range of products	0.12	4	**0.48**	1	**0.12**	1	**0.12**	2	**0.24**
Competitive Position	1.00	-	**4.14**	-	**2.00**	-	**1.78**	-	**3.54**
Key: 1 = Weak, 2 = Tenable, 3 = Favourable, 4 = Strong, 5 = Dominant									

Source: Evans (2013:120)

The key success factors that were identified are all key areas within the flooring industry, which must be performed at the highest possible level of excellence if a company wants to succeed within the industry (Evans, 2013:119-123).

Ten key success factors were considered to demonstrate Belgotex' strong current market share position, one being weak and five being dominant:

- **Product quality and reliability** – Product quality and reliability has always been a backbone of the carpet industry and as a result most of the local competitors have a high score in this regard. Only Van Dyck has fallen behind in recent years since their focus has moved more towards imported products and their focus being more on price than quality. Although the market is very price conscious, customers continue to demand product reliability as well.
- **Cost factors -** The South African market is a price conscious driven market in both the residential and commercial markets. In the commercial market tenders are win or lost based on price above other considerations such as design capabilities, quality or even sustainability proposition for example. Cost effective products continues to dominate the market above quality or reliability considerations. Nouwens, a traditional wool and wool blend manufacturer, for example launched their own polypropylene products to stay in touch with market demand for more affordable carpets. Imports does score slightly better than local manufacturers as they focus on specific market segments and not the entire market and can offer attractive prices. Some distributors offer the market very competitive pricing on luxury vinyl tiles, laminates and even tufted carpet tiles.
- **Differentiation factors** – Although price remains a leading factor, manufacturers like Belgotex continue to develop products that cannot be easily simulated or copied by local manufacturers. Belgotex' colourfast solution dyed nylon technology has also set the tone for product differentiation as well as their resent tufted tile innovations and designs.
- **Customer service** – Those suppliers who perform their customer service duties at the highest possible level in the soft flooring industry does have the edge on their competitors. This include all role players in the industry from retailers, architects, designers, decorators and the end-user.
- **Customer loyalty** – the loyalty of retailers as well as specifiers has shifted away from carpeting in recent years towards imported hard flooring products since

consumer buying behaviour is leaning more towards hard flooring options. In commercial floor spaces, corporates and designers still prefer imported tufted tile ranges from companies such as Interface, above locally manufactured products in the high-end market.

- **Product service network** – Belgotex has a well-established distribution and logistics network, as well as a good after sales service network, through installation training, site inspections and on-site installation assistance. This becomes critical with the installation of more technical products such as luxury vinyl tiles. Some importers offer similar services as they focus on smaller market segments and can service their customer base efficiently. A very personal customer service strategy has always been the back bone of the soft floor industry. To be the market leader, customer service as well as product service network must be high. Through the years the flooring trade has become accustomed to on time overnight deliveries and accept it as the norm.
- **R&D spending** – Through their international networks and interactions as well as continuous investments in new machinery, Belgotex is on par with global trends and innovations. This has always given them an edge against local manufacturers who does not invest as much in research and development.
- **Financial position** – Belgotex remains in a strong financial position comparing to local opposition. Both Van Dyck and Nouwens have experienced financial difficulties in recent years and started merger talks in April 2019 in an effort to stabilise their weak financial positions.
- **Employee retention** – People buy from people – Very much a reality in the flooring industry. Over the years Belgotex has managed to hold on to key staff members who could assist them in growing their strong market position. In comparison, their opposition have a high staff turnover which is eminent for good customer service, positive sales performance, customer loyalty and reliable product service networks.
- **Range of products** – Belgotex through their international networks and strong financial position has the ability to offer the market a wide variety of products reaching from locally produced carpets, underlays and artificial turf to imported luxury vinyl tiles, cushion vinyl and vinyl sheeting.
- **Overall market share** – This rating was considered important since there are only three remaining soft floor local based manufacturers competing for market share,

together with growing imported products. Suppliers who are able to raise their key success factors above industry and market expectations will continue to dominate the market.

2.6. Stakeholder analysis

Stakeholders can be defined as any group or individual who can be affected by the achievement of an organisation's objectives (Ungerer *et al.,* 2016:77). The South African flooring industry impact various stakeholder groups and it remains important to strengthen or improve reputation and to build and maintain external stakeholder relationships.

Stakeholder groups within the flooring industry have different expectations from the local manufacturers (Ungerer *et al.,* 2016:77). Some of these expectations are:

- **Employees**: Factory employees as well as retailers and fitting teams require a stable industry in which they can work and be able to provide for their families and meet their personal needs and wants.
- **Customers**: Industry leaders must design and produce trend right flooring products and services that consumers will trust and give share of wallet. In recent years the industry has designed many products that follows global trends. Belgotex for example launched carpet tile ranges in plank format that can complement the growing luxury vinyl tile trend in commercial installations.
- **Communities**: It remains important for carpet manufacturers to be socially responsible, through how they treat the environment and how they serve the larger community. Belgotex for example has taken huge strides ahead as a leading carpet manufacturer in South Africa in the past 20 years a responsible corporate citizen.
- **Investors**: Industry leaders must develop compelling growth strategies and align their core competencies to the strategy. The current flooring market in South Africa is under pressure as consumer spend has declined. It is important for factories to continuously work on strategies that will build confidence and keep flooring top of mind with the market place.
- **Regulators**: Manufacturers as well retailers need to govern themselves in accordance with high ethical principles and in a manner consistent with professional and legal standards.

2.7. Summary

In the South African soft flooring industry, Belgotex still have a competitive advantage above industry rivals. They have control over the entire manufacturing process from raw materials to distribution which provides operational efficiency and unexpected speed to market with new product innovation as well as diversified design capabilities through new machine technologies.

Innovation has always been part of the Belgotex DNA and their first mover approach has made them pioneers in the South African soft flooring industry and leaders in technology and design. Exciting, innovative product offerings as well as large scale production, marketing and distribution capabilities has offered local and international customers world class products

Differentiation factors like brand equity, eco-friendly manufacturing initiatives, technology, first mover capabilities, global networks and infrastructure has and still gives Belgotex a competitive advantage in turmoil market conditions.

Chapter 3 – Internal organisational analysis

3.1. Introduction

The Belgotex factory is a 100 000/m² production facility, based in Pietermaritzburg and is by volume the largest manufacturer of soft floorcoverings in South Africa and will be the focus point of this internal organisational analysis. The company employs more than 600 people and sales, local and internationally, contributes for more than 6.5 million square meters per annum. The local flooring market follows the same market segmentation format as the international market and are segmented into two major categories which are residential and commercial. This analysis will focus on both market segments. Local sales constitute for approximately 40% of volume in the residential market and 60% in commercial markets. In recent years Belgotex has also increased its exports focus. Exports is an attractive and growing opportunity for the company and contribute currently to 20% of total sales by volume per annum. Belgotex exports to over 40 countries worldwide.

In both the residential and commercial markets, carpeting, ceramic tiles, luxury vinyl tiles, laminates, cushion vinyl, marble, granite, and timber flooring all compete for market share. In recent years ceramic tile sales have grown substantially through distributors like Italtile, CTM and Tile Africa, taking market share away from carpeting and continues to be a growing concern for local soft floor manufacturers. The growing popularity of luxury vinyl tiles (LVT) has led to an increase of independent importers of LVT ranges suitable for both residential and commercial applications in recent years. The market trend has therefore moved away from carpets throughout all living spaces towards trends that encompasses wood-look laminate and LVT flooring products. The popularity of the wood-look flooring trend has also led to Ceramic tile producers starting to produce wood-look ceramic tiles. These hard floor trends have added pressure on the carpet sales of a volume driven carpet mill like Belgotex and today the market focus is increasingly on the marketing of vinyl, laminate and ceramic flooring solutions to the detriment of soft flooring solutions.

The following three questions stand at the fore of this internal analysis:

- Where is Belgotex now?
- Where would they like to be?

- How do they get there?

The key aspect for a manufacturer like Belgotex is to understand their core business and to search for growth opportunities that will stem from a knowledge and understanding of market adjacencies that could build a competitive advantage in a new, adjacent arena (Thompson *et al.,* 2017:300-301).

3.2. Company Background and History

Belgotex started operations in South Africa in 1983. The company was founded by Stephan Colle as a family owned business in Pietermaritzburg, trading as Natal Nylon Industries. The original strategy was to enter the local manufacturing arena as a progressive yarn manufacturer producing and supplying the latest high-tech yarn to local carpet producers. Shortly thereafter, in 1984, the company expanded into a vertically integrated carpet manufacturer, Belgotex Carpets (Anon, 2017).

Colle then established a global footprint through the acquisition of various international operations throughout Europe, Latin America and Australia. Today Belgotex South Africa is a member of the multinational Belgotex International Group (BIG) with seven companies over four continents. The company continues to diversify into the import of other flooring types such as vinyl, grass, rubber and underlay and continues its original strategy of continuous innovation and product development. Belgotex' culture of continuous investment in equipment and its reputation for excellence is essential to keep moving the company ahead of the competition as well as the preferred flooring option for the South African market (Anon, 2017).

The business enjoys a significant market share in South Africa, offering various soft floorcoverings, luxury vinyl, artificial lawns and modular carpet ranges for specific market segments. In the past 36 years the Belgotex strategy has been on achieving a competitive advantage based on better capabilities and competences than industry rivals. The manufacturing processes focusses on the production of tufted and needle punch broadloom carpeting, tufted and needle punch carpet tiles, polyamide and polypropylene yarns, polypropylene staple fibres as well as artificial grass. The company also extended its manufacturing arm into the distribution channel of importing cushion vinyl, homogeneous vinyl, luxury vinyl tiles and rubber products through international partnerships and networks.

The company’s product offerings are suitable for the use in residential, commercial office and retail spaces, hospitality, high-spec health and education centres as well as landscaped and sports environments. They believe that their control over the entire manufacturing process from raw materials to distribution has given them a competitive advantage and has ensured operational efficiency and unexpected speed to market with new product innovations throughout the years.

3.3. Vision, mission and values of the organisation

3.3.1. Vision Statement Analysis

Thompson *et al* (2017:36) explains that a strategic vision should be in writing and should explain the underlying principle and direction to all employees and stakeholders.

Belgotex’s vision is: “*To be recognised, world class, African brand showcase through our deep connection with our people, product and planet*”.

This vision stipulates the future direction of the organisation and is unique to Belgotex. Their vision and success story have always been driven by a focus on innovation, quality and sustainable product manufacturing, through staying in touch with the latest trends, and continuous investments in state-of-the-art technology. Innovation is part of the Belgotex DNA, and the company recorded many firsts in the South African flooring industry throughout the years because of their first mover strategy. They pride themselves on being pioneers in the soft flooring sector and lead by technology and design. The company strives through their corporate responsibility initiatives to be a world-class African Brand showcase, through a deep connection with their people, product and the planet and to provide certified greener alternatives without compromising on product performance and trend-right designs.

Brand recognition, and equity as well as a company steadfast and rooted on the African continent is at the forefront. Belgotex is a company who believes that people inspire greatness. The company believes it takes a team to achieve world-class standards and that it cannot be achieved alone.

The vision provides a model for managers to set departmental objectives and strategies that are in sync with the organisation's overall strategy of being a capability-based value chain strategy (Thompson *et al.,* 2017:37). Manufacturers must work towards greener and more sustainable manufacturing processes. The Belgotex vision helps preparing the company for a more sustainable future.

3.3.2. Mission statement analysis

A mission statement must provide managers with unity of direction that surpasses personal preferences and beliefs. A sense of shared expectations and solutions among all levels of management can be promoted (Thompson *et al.,* 2017:38).

Belgotex's Mission: "*Belgotex designs, manufactures and delivers quality floors that endure the speed of life*".

The mission statement describes the organisations current business and purpose (Thompson *et al.*, 2017:37). It is an enduring statement of purpose that distinguishes a company or business from others in the same business environment or type (Fahy & Jobber, 2015:12). It describes the organisations product and or service, the needs it aims to satisfy, the customer groups or markets, its approach to pleasing customers and the identity of the organisation (Thompson *et al.*, 2017:38). The Belgotex mission states that the company designs, manufactures and delivers quality floors that endure the speed of life. Belgotex has always been a first mover in the South-African flooring environment, with many firsts in product innovation throughout the years. Their mission statement speaks of a Massive Transformative Purpose (MTP) as explained by Ismail *et al.* (2014:51-58). Companies with a massive transformative purpose think big. Belgotex strive to create and deliver product that will endure the speed of life, meaning that their products will outlasts the flooring challenges and high foot traffic of modern-day life.

The focus is on the designing, manufacturing and distribution of high-quality broadloom and modular carpets as well as custom solutions available to the commercial and hospitality market. Their core purpose is to produce flooring products that will stand the test of time in various segments of the flooring business ecosystem.

Whilst the vision statement indicates the strategic direction of the organisation, the mission statement indicates what needs to be done during this voyage, and the values of the organisation explain how things will be done daily (Lazenby, 2016:38). The company values establish behavioural beliefs and norms for employees. The Belgotex values are the following and the core link between the vision and the mission:

- **Better together**: Belgotex aim to communicate transparently, naturally embrace teamwork and are inclusive, are engaged and motivated at work, respect each other and everyone's contribution, embrace the spirit of Ubuntu in building the Belgotex community;
- **Tread softly**: Belgotex strive towards sustainable practices, asking less of the planet in all that they do. Implementing world class, environmentally friendly, practices and standards, care passionately about the planet, preserving it for future generations;
- **Curiosity**: Belgotex believes that true innovation starts with a desire to explore and achieve the unimaginable. They constantly challenge the 'what they know today' to impact the future with lasting value. Innovation is defined in the way they work with people, product and planet; encourage a learning culture, have innovative leaders who work towards looking after the future;
- **Courage**: Belgotex is not afraid of asking the big questions and to experiment without fear of failure. Try new things and challenge the norm, have courageous conversations when they are needed;
- **Deep focus**: Belgotex is on a journey of vertical growth to deliver specialised flooring solutions to Africa and the world and believe they can be a driver of change.

3.4. Technology and first mover advantage

Belgotex can be described as a first mover in the South African soft flooring manufacturing space. First movers need to have innovative product offerings as well as a large-scale production, marketing and distribution capabilities (Thompson *et al.,* 2017:206-207). The following are all examples of the Belgotex legacy of firsts in the market place that assisted them throughout the years to establish brand loyalty, develop and grow loyal customer relationships and to maintain a good distribution network (Anon, 2017):

- First to introduce the advanced *MiracleBac* backing for tufted products and *NexBac* a bitumen-based backing with fibreglass scrim for dimensional stability in needlepunch and tufted carpet tiles as well as *NexBac Eco* with recycled content;

- Created *BerberPoint* the first structured needlepunch range in South Africa to address key flooring issues of performance, price and availability;
- First to launch a product with the production process shortened from yarn extrusion, direct to tufting and backing. Producing *Matador,* a cost-effective entry-level carpet.
- First for *Stainproof Miracle Fibre™* - revolutionised yarn system for polypropylene carpets, *Stainproof SDX™* for nylon carpets and *SDX Soft™* for a softer, silkier carpet experience;
- First to locally manufacture artificial lawn, *DuraTurf*, to withstand the harsh UV-rays of the sunny South African climate;
- The first South African flooring company to gain the coveted ISO 14001 environmental certification;
- First to launch a *Green Underlay* made from 100% recycled fibres and first to recycle polypropylene and production waste in-house to produce recycled eco fibre;
- First to conduct a carbon footprint analysis and to install a roof-mounted solar power system to move towards more sustainable energy sources;
- First to create an academy that could provide essential fitting skills to the flooring trade, as well as piloting the first National Qualification of Floor Coverings (NQF1) training program;
- First to introduce the sophisticated pattern tufting technology of Tuftweave, allowing designers the flexibility to create luxurious axminster-type carpets from any design or pattern, previously only achievable by weaving.
- First to produced 3.66- and 4.00-meter carpets in South Africa.

3.5. Strategic Position

Out of the mission statement and from the results of the SWOT analysis (Table 3.1) flows the company objectives. The objectives must consider objectives of strategic thrust and strategic intent (Fahy & Jobber, 2015:14-15). The strategic thrust objectives focus on one or a combination of the following product growth strategies as explained by Fahy and Jobber (2015:15):

- Market penetration or expansion through existing products in existing markets;
- Product development through new products for existing markets;
- Market development with existing products in new markets;

- Diversification with new products for new markets.

Out of this theory one can highlight the following Belgotex objectives that shows strategic thrust and intent:

- Remain and grow as Africa's leading carpet and artificial grass manufacturer in the next 10 years;
- Continue to focus on innovation and quality product manufacturing, expanding further into existing markets, with colourpoint machinery, solution dyed nylon and polypropylene yarn technologies that can create and design product that not only inspires, but also target various LSM market segments within the African flooring landscape;
- Continue to craft quality products that offers the best value for money to the market;
- Through innovation and quality manufacturing create new products for existing markets;
- Continuously search for opportunities to tap into new and emerging markets throughout Africa;
- Continue to build meaningful relationships with customers and valuable partners, through creativity, communication and collaboration;
- Continue with their journey of sustainable manufacturing through constantly pushing the boundary limits of operational efficiency, seeking ecologically sustainable manufacturing methods and the continues development of eco-friendly products;
- Belgotex is the market leader in soft floor manufacturing in South Africa. Through ongoing market communication and brand awareness they strive to grow their market share from 60% to 80% with the demise of other local manufacturers in the soft flooring market space;
- Current retail networks and merchandising needs to be reinvented and renovated for the industry to remain relevant in the African flooring market;
- Training and skills development initiatives in the floor fitting space;
- Belgotex continuously assess their distribution network to all customers and retailers in South Africa and a stock on hand philosophy;
- Aim to establish and grow the new Belgotex brand DNA in the market place.

3.6. Situation Analysis - SWOT

The SWOT analysis is an important tool in the process of making strategic decisions (Hellriegel *et al*., 2016:223). It forms the basis for crafting a strategy that capitalises on resource strengths, overcome resource weaknesses and aims at capturing market opportunities and defends against threats (Thompson *et al.*, 2017:120). The essence of managing out of the SWOT analysis is to search for the business strengths and to then transform them into business opportunities. Weaknesses must become strengths and strengths must become opportunities. Table 3.1 shows a SWOT analysis for Belgotex. Belgotex places a high priority on regular SWOT analysis and the importance of the SWOT analysis process in the effective operation of the organisation is rated high.

Table 3. 1: Belgotex SWOT analysis

	Helpful	Harmful
	Strengths	**Weaknesses**
Internal	• Local and global networks with access to global trends, designs and innovation; • The latest production technology; • Design capabilities; • Currently a strong local infrastructure and supply chain; • Strong African brand equity; • Sustainability and environmental rating; • A positive vision and purpose of deep connection with all stakeholders, product responsibility to care for the environment; • Deep market penetrating basket of products; • User friendly webpage, Instagram and Facebook presence; • Factory owned showrooms in JHB, KZN and Cape Town.	• Current production facility geared for carpet manufacturing and not hard flooring; • Brand building and media communication to the end-user is weak; • Wholesalers, who are a secondary supply chain and not adding substantial value to the Belgotex brand is still more than 30% of the Belgotex Gauteng market and 25% of their national market sales; • Too dependent on current customer base and supply chain infrastructure; • Slow innovative speed to market developments & product launches; • Do not engage effectively with target market prior to new launches;

		• Not an effective online platform – not really tapped into the IoT (Internet of Things); • Slow and often damaged goods deliveries to country customers.
External	**Opportunities** • Use Technology and IoT to create information highway between company and customers; • Changing flooring market conditions and trends and the need to alter the marketing mix; • Study market trends and needs and become more proactive in addressing market needs; • Become more sales and marketing techno savvy; • Factory owned showrooms creating forward integrating possibilities.	**Threats** • Decline soft floor as well as other floor types consumer purchasing power • Growing macro- and micro environment uncertainties; • Changing consumer trends; • Current aging distribution channel; • Exchange rate fluctuations and import duties affected finished goods imports; • Increasingly high distribution costs; • Increasing high manufacturing costs; • Rising cost of carpets vs other more affordable hard floor types; • Globalisation - Cheap import imitations as seen in the artificial turf space in recent years; • The continuous impact of hard flooring

3.6.1. Internal Strengths and Weaknesses

A major question is if the Belgotex management team will be able to determine competence levels in the performance of key tasks of the business such as sales, marketing, customer service and supply chain management and identify which activities are performed well and if there are activities that performs better than those of rivals. Today the use of social media and technology has made it possible for the opposition to know your new strategy as you are launching it. Belgotex will for example launch a new product to the market, photos will be sent via social media to the opposition and could even be copied and manufactured or even imported before the new product has gained real traction. Can Belgotex address these current weaknesses and turn them into strengths?

Jurevicius (2014) quotes F.R. David from his book Strategic (2009) as he explains that the internal factor evaluation matrix (table 3.2) is a strategy tool used to evaluate a business's internal environment and reveal its strengths and weaknesses. It is important for Belgotex to realise some of these weaknesses that were identified and search for methods to turn them into strengths, as strengths will lead to opportunities (Table 3.1).

The inventory turnover calculation provides insight in how many times a year stock is sold and replaced. Belotex had a very low turnover rate of only 2.57 times a year in 2018. This can be an indication of obsolete inventory that is taking up space and costing the company money. Slow moving stock items should be identified and could be sold at reduced prices. Fortunately, all the stock items of Belogtex are non-perishables and can be stored for long periods without compromising the quality of the product.

The inventory turnover ratio benchmark for the industry for 2018 was 8.6 times. Belgotex is therefore caring too much inventory and imminent during a visit to the factory.

The average collection period in terms of payments owed from accounts receivable is represented by die average collection period ratio. Over the past 3 years the average day for payments have moved from 61.15 to 91.94. In other words, payments are received a whole later than previous years. Cash flow problems could be created because of this trend and also indicates a lack in the managing of working capital.

Table 3. 2: Belgotex internal factor evaluation

Key Internal Factors	Weight	Rating	Weighted score
Strengths			
Diversified income through variety of products	0.06	4	0.24
Brand reputation (industry)	0.10	4	0.40

Well established product portfolio	0.08	3	0.24
Good employee management	0.05	3	0.15
Operational agility	0.05	3	0.15
Extensive distribution channels	0.10	4	0.40
Cost competitiveness	0.08	4	0.32
Stakeholder confidence	0.05	3	0.15
Strong corporate social responsibility	0.10	4	0.40
Weaknesses			
Management of working capital	0.08	2	0.16
Inventory turnover	0.10	1	0.10
Rigid organisational culture	0.07	2	0.14
Competition based on prices	0.09	2	0.18
Over dependence of sales from wholesalers	0.06	1	0.06
Slow speed to market developments and product launches	0.06	2	0.12
TOTAL	1.00	-	3.21
Key: 1 = weak, 2 = minor weakness, 3 = minor strength, 4 = major strength			

Although Belgotex' strong overall position in the soft flooring and distribution market is not disputed, it is clear out of the factor analysis that they should improve on their weaknesses and turn them into future strengths.

3.6.2. External Opportunities and Threats

Thompson *et al.* (2017:120) points out that the organisations overall situation must be evaluated, and key resources and capabilities must be scrutinised with relation to the degree in which one can take advantage of opportunities and defend against external threats. A fast-changing market can present good opportunities, but it is often difficult to recognise them before rivals does. Organisations that seize these opportunities have been monitoring the market changes and prepared themselves to take advantage of changing market conditions by ensuring they have competitively valuable resources in the form of talented personnel, technological knowledge and strategic partnerships. Opportunities must connect with the organisation's competitive assets, offer growth and cost-effectiveness as well as a potential competitive advantage (Thompson *et al.,* 2017:124).

Whilst the internal environment allows a business to have direct control and responsibility in a specific market segment through managing its marketing mix for example, a business will face many uncontrollable variables in the external environment, that may not only affect the business, but also the target market Lamb *et al.* (2015:40-42).

Out of the SWOT analyses the Belgotex close connection with industry people, product and planet is an advantage. Opportunities through fully embracing technology and the IoT to connect with consumers on a whole new level must be exploited for future growth. The changing flooring needs of the market place and increasing hard floor volumes also creates opportunities to alter their product mix and offer products that compliment current market trends.

3.7. Sustainability – the ability to create value over time

Belgotex has since the start of their sustainability journey in 1991, constantly pushed the limits for operational efficiency, seeking out ecological sustainable manufacturing methods and continued to develop eco-friendly products. The following work has already been done by the company on their journey of being a responsible corporate citizen:

- The first South African carpet manufacturer to earn a level A Global Green Tag eco label certification, called GreenRate™;
- First Custom Industrial 6 star rated building in SA

Both the above-mentioned certifications are incredible achievements, positioning Belgotex as leaders, with an intimate understanding of their clients' journey towards greener buildings and understanding their own role as manufacturer in the long-term vison of asking less of the environment in everything that they do.

- Compliance to ISO 14000 series of standards
- Belgotex Foundation: Initially socially focused and philanthropic; today increasingly relevant in stimulating design and innovation and addressing skills development to enable economic development along the value chain as well as contributing to the circular model through reclamation. The Belgotex foundation will in future be a 25%

shareholder in Belgotex as part of their vision of being a responsible corporate citizen.

- Belgotex DNA
  - A much-needed challenge to the business, driving their vision and values
  - Still a way to go to internalize and operationalize
  - Significant contribution to building resilience in the business

3.8. Stakeholder analysis

A stakeholder can be a person or a group that has an interest in a company and which can be affected by an organizations actions, objectives, practices, believes, goals and policies (Ungerer *et al*., 2016:77; Smit & Cronje, 1997:502). The Business dictionary identifies key stakeholders as creditors, directors, employees, government, shareholders (ownership interest), suppliers, unions and the community from where the business draws its resources.

Stakeholders can be divided into internal (primary) and external (secondary) stakeholders. Internal stakeholder's interest is a result of having a direct relationship with a company and can be employees and shareholders of Belgotex. External stakeholders do not directly work for the company but are affected by the operations, outcomes and actions of the business and are typically creditors, suppliers, government, Unions and public groups (Smit & Cronje, 1997:502).

According to Rossouw and Van Vuuren (2013:244) each organization has their own set of stakeholders whose ethical expectations must be gauged. An effective approach to stakeholder identification is to design a stakeholder map and to identify which stakeholders could have a stake in the ethical practices of the organization and can be prioritized in terms of the ethical, legal, voting, technological, ecological and political power they have. Stakeholders are prioritized on the impact they may have on the organization, as well as the ethical impact the organization may have on stakeholders.

A business that only honours its duty to shareholders does not have any moral or ethical obligations to others. An organization with an ethical mindset practices their values when engaging with all stakeholders and is characterized by a seamless integration of ethics into the purpose, mission and goals of the organization (Rossouw & van Vuuren, 2013:130). Belgotex understands that they have a duty to all stakeholders and that they must consider the interest of stakeholders and not focus solely on the interest of the owners or shareholders.

To demonstrate their commitment towards the interest of stakeholders, Belgotex formulated a Corporate Social Responsibility (CSR) Policy (Belgotex, 2018). The purpose of this policy is to articulate the way they will contribute to transformational corporate sustainability and responsibility. The policy applies to internal shareholders i.e. company directors, managers and employees, and to external stakeholders which was identified through their materiality analysis and disclosure (Belgotex, 2018). According to Overall (2017) a materiality assessment is a tool to identify the organisation's most material issues. This can be done by involving internal and external stakeholders to get input. The assessment must be designed in a way that the question constructed, and the stakeholders selected will help the organization to make sound decisions. It should be designed to inform reporting and strategy.

Belgotex realizes that their viability is dependent on their ability to compete and assert itself in a competitive business environment and that they must meet the expectations of multiple stakeholders (Ungerer *et a*l., 2016:14). The central goal of strategy is to achieve sustainable and long term returns on investment and to meet numerous challenging needs and interest of stakeholders. In the complex business world wherein, organizations operate they must master the craft of understanding and responding to the interest of different stakeholders (Ungerer et al., 2016:14).

Driven by Belgotex vision, "To be recognized, world class, African brand showcase through our deep connection with our people, product and planet", it can be determined that Belgotex's vision considers their responsibility to their shareholders as well as their responsibility to multiple stakeholders as important. The focus is on innovation, quality and sustainable product manufacturing. As a sustainable enterprise and contributor to sustainable development by delivering on the triple bottom line of economic, social and environmental benefits, a fourth bottom line is integrated into their business strategy by framing sustainable development as a multi-dimensional opportunity as per King III (Ungerer *et al.*, 2016:79).

Belgotex's mission considers its purpose by defining their boundaries and outlining believes and values. There is an awareness that shareholders not only have to be served but that the interest of stakeholders must be satisfied as well (Ungerer *et al*., 2016:41). Belgotex cultivates meaningful connections with stakeholders through communication and collaboration and recognize that their local and global social and environmental context requires strong leadership and transformational goals (Belgotex, 2018). Belgotex's corporate social responsibility (CSR) policy acknowledges the importance of stakeholders and indicates meaningful and ongoing communication with stakeholders as essential (Ungerer *et al*., 2016:77).

Belgotex's corporate sustainability and responsibility approach is integrated across their entire business and are essential to their new DNA. Integrated responses to shareholders are determined by using a materiality analysis. It is the responsibility of Directors to monitor and evaluate the goals outlined in the policy framework and it is the responsibility of Directors to communicate business sustainability performance to internal and external stakeholders (Belgotex, 2018).

The principles of the CSR policy are to take accountability for the impact and decisions of Belgotex's activities on society, the environment, the economy and to be proactive to prevent negative or unintended consequences. Belgotex believes that decisions they make, and activities they engage in should be transparent if it impacts society and the environment, and this information is disclosed to stakeholders.

The values of Belgotex is communicated to all staff and stakeholders to ensure ethical behaviour in business dealings. Legal requirements are understood, and compliance is not negotiable. Belgotex also demonstrates respect for international norms and behaviour. The importance of human rights and respect is acknowledged and lived by Belogtex.

The goals of the CSR Policy are economic development and value creation, good governance through leadership, transparency and ethical practices, stakeholder orientation through social investment, fair labour practices, supply chain integrity and environmental integrity through ecosystem protection.

Out of the above analysis it can be determined that Belgotex understands that stakeholder groups have different expectations from the company. Employees want security and job satisfaction, customers want high quality products that they can trust, communities demand social responsibility through protection of the environment and how they serve the larger community, investors want investors rewards and regulators requires leaders to govern themselves in accordance with high ethical principles (Ungerer *et al*., 2016:77). Belgotex's strategic landscape is influenced by the different interests of different stakeholders and to manage this paradox. The CSR Policy is used as a tool to manage different stakeholder's interest amongst other business activities (Ungerer *et al*., 2016:11; Belgotex, 2018).

3.9. Competitive Advantage

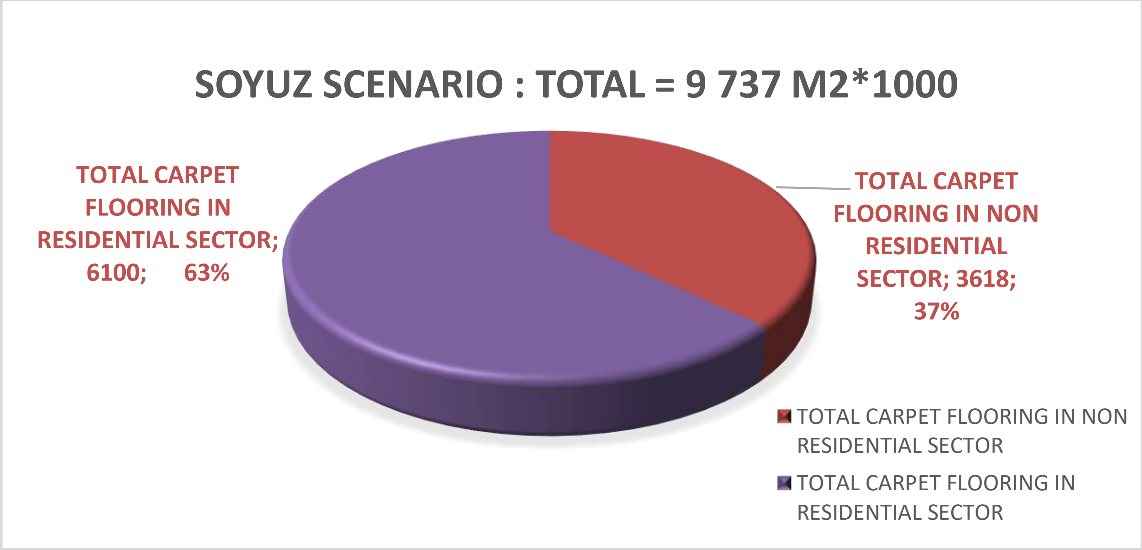
Belgotex has the following competitive advantage in the South African soft flooring industry:

- They have control over the entire manufacturing process from raw materials to distribution which provides operational efficiency and unexpected speed to market with new product innovation through the years.
- Innovation is part of the Belgotex DNA and they are pioneers in the soft flooring industry and leaders in technology and design.
- Exciting, innovative product offerings as well as large scale production, marketing and distribution capabilities are offered to customers.
- Differentiation factors like brand equity, eco-friendly manufacturing initiatives, technology, first mover capabilities, global networks and infrastructure gives Belgotex a competitive advantage in turmoil market conditions.

Belgotex has throughout the company's history strived for innovation, service and differentiated factors to grow its market share. Today this strategy has proved to be more important than ever before. Differentiated factors like the brand equity, eco-friendly manufacturing initiatives, its first mover capabilities, technology and innovative manufacturing processes, together with global networks and infrastructure has given Belgotex a local advantage in turmoil market conditions.

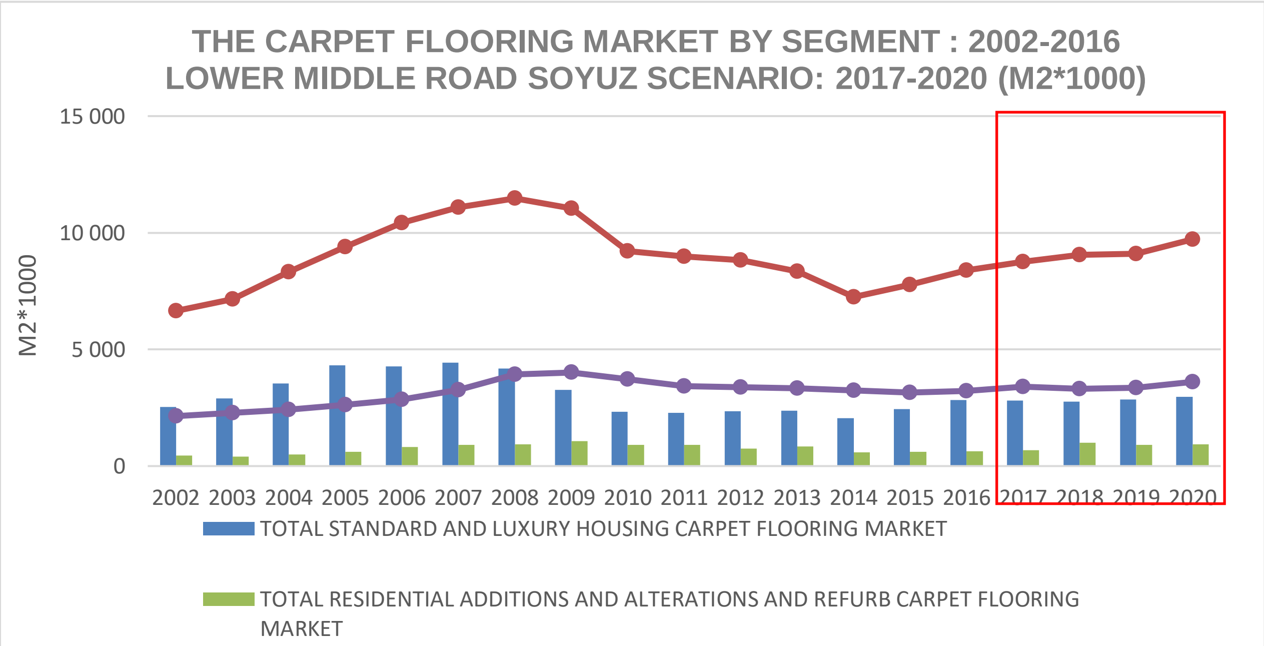
The Belgotex advantage is being a local African brand showcase manufacturer who has stayed abreast with technology and manufacturing innovations. Consumers tend to prefer Belgotex products due to their strong brand and meaningful customer relations. Consumers are still prepared to pay, within reason, a higher price for a Belgotex product as the company continues to offer product performance and trend-right designs. Lewis (2019) uses various scenarios to predict future volumes for the flooring industry. The Soyuz scenario can be described as a steady but average growth and assumed a probability for the total South African carpet market by 2020 (figure 3.1). All things remain equal, one can predict that Belgotex will continue to dominate the carpet market until at least until 2020. Figure 3.2 shows the carpet flooring market by various market segments over time and includes average growth scenario forecast according to the Soyuz scenario method.

Figure 3. 1: The Carpet flooring market by sector: 2020



Source: Lewis (2019)

Figure 3. 2: The local flooring market by market segment over time: 2002 – 2020

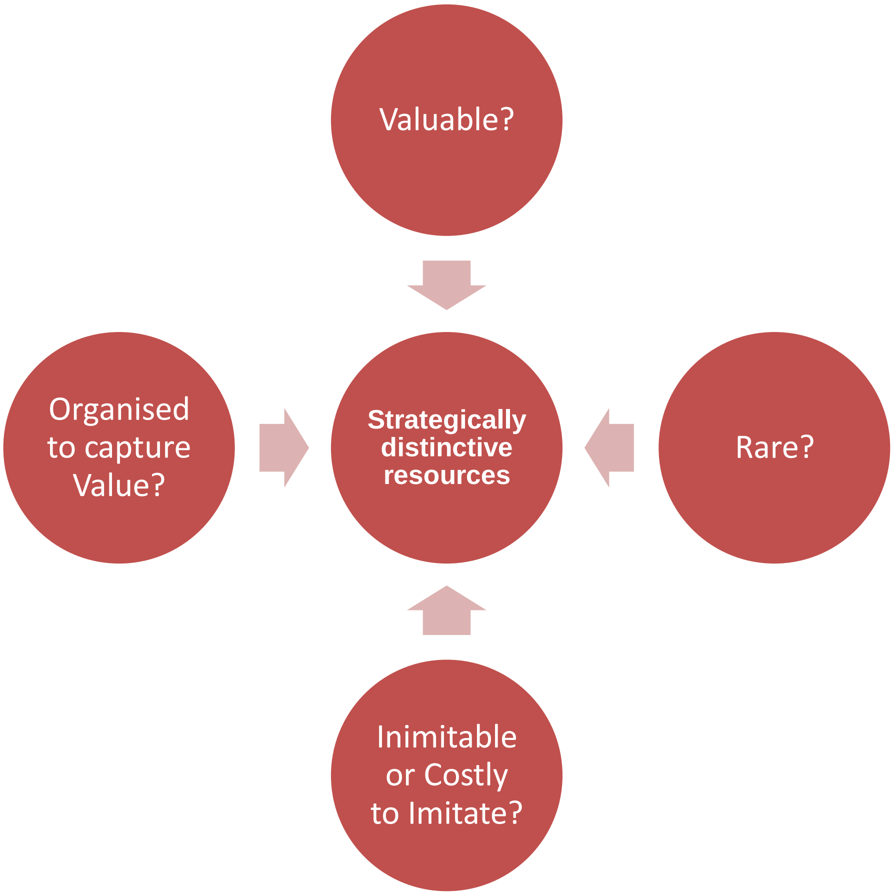


Source: Lewis (2019)

3.10. VRIO-framework

The VRIO-framework is a strategic tool used to analyse a company's resources and capabilities to establish if they can be a source of sustained competitive advantage. VRIO analysis stands for four questions that ask if a resource is: valuable, rare, costly to imitate and lastly if a firm is organised to capture the value of the resources? This resource-based view of strategy focuses on the internal competitiveness of a firm, rather than its external positioning, in determining a sustainable competitive advantage (Evans, 2013: 265-267). A business must possess all four of these attributes to build a competitive advantage that is sustainable (figure3.3.)

Figure 3. 3: VRIO resources



Source: Evans (2013:266)

3.10.1. Valuable

A resource should add value by enabling a business to exploit market opportunities or defend against threats. Belgotex has throughout their history followed a first mover strategy enabling them to strengthen their competitive position. This has been accomplished by introducing many firsts in the industry as explained. Their continuous investments in new technology and machinery has enabled them to exploit many market opportunities. The latest additions of color point equipment is an example of manufacturing capabilities for the hospitality industry in broadloom carpeting and specialised tufted tile designs for the commercial market. The colour point technology has enabled Belgotex to increase their product differentiation and is at the moment one of the most valuable product differentiating assets the company possesses. It is important to note though that Belgotex relies on large volumes through their mill and the hospitality and high-end tufted tile markets are very much niche and project-based markets and competes with imported ranges.

3.10.2. Rare

Products will be termed rare only when they are not possessed by most competitors. This has been an ongoing battle in the carpet industry. As soon as new innovative products, designs or technology is introduced, the opposition catch up and introduce similar products or designs to the market. Belgotex has always strived to find rare and valuable resources and capabilities as seen through their many firsts throughout the years. It is important to note that rare and valuable resources such as their solution dyed nylon technology grant only temporary competitive advantage and once too many players possess this same resource, the competitive advantage is lost (Evans, 2013:265). In recent years Nouwens acquired solution dyed nylon (SDN) technology and Van Dyck will launch their first SDN range in 2019. Globally carpet design trends is moving to multi-level design loop (MLDL) technology. MLDL carpets are manufactured on Colourpoint machines of which Belgotex owns three and the company purchased a fourth MLDL machine in 2019. They are the only local producer who possess MLDL technology giving them a rare resource for the future.

3.10.3. Costly to Imitate – Inimitable

Products cannot be readily imitated by competitors, or the advantage is not sustainable. Belgotex seems to focus two types of barriers to imitation as explained by Evans (2013:265):

- Causal ambiguity which refer to the fact that the link between the resource and a sustainable competitive advantage is not evident to the competition and they are unsure which resource to intent to imitate. Belgotex launched a residential carpet collection manufactured from polypropylene, making it an affordable cost-effective range for the residential market segment in June 2019, namely *Living Matter & Mantra.* This range has beautiful styles and colours but can be imitated by the opposition who has similar machine capabilities. In the same context though, Belgotex is already working on a new tufted tile range with new colours and designs from their colourpoint equipment that will not be easy to imitate and so the opposition do not know where to focus first as the commercial market is a better money spinner than the residential market in the current economic environment.
- Social complexity is when a resource has been created through complex interactions between a company's customers, suppliers and other stakeholders. This is eminent in the recently launched *Grafika* tufted tile range in May 2019. This commercial range was inspired by African design, avoiding the typical clichés, and looking at everyday objects like *crates, blocks and skew lines* instead for inspiration. Manufactured on colourpoint equipment and difficult to and very costly to imitate.

3.10.4. Organised to capture value

The resources do not offer any advantage if a company is not organised well enough to capture value from them. It is important for organisations to have disciplined management systems, processes, policies, organisational structure and a healthy culture to fully realize the potential of its valuable, rare and costly to imitate resources and capabilities (Evans, 2013:266).

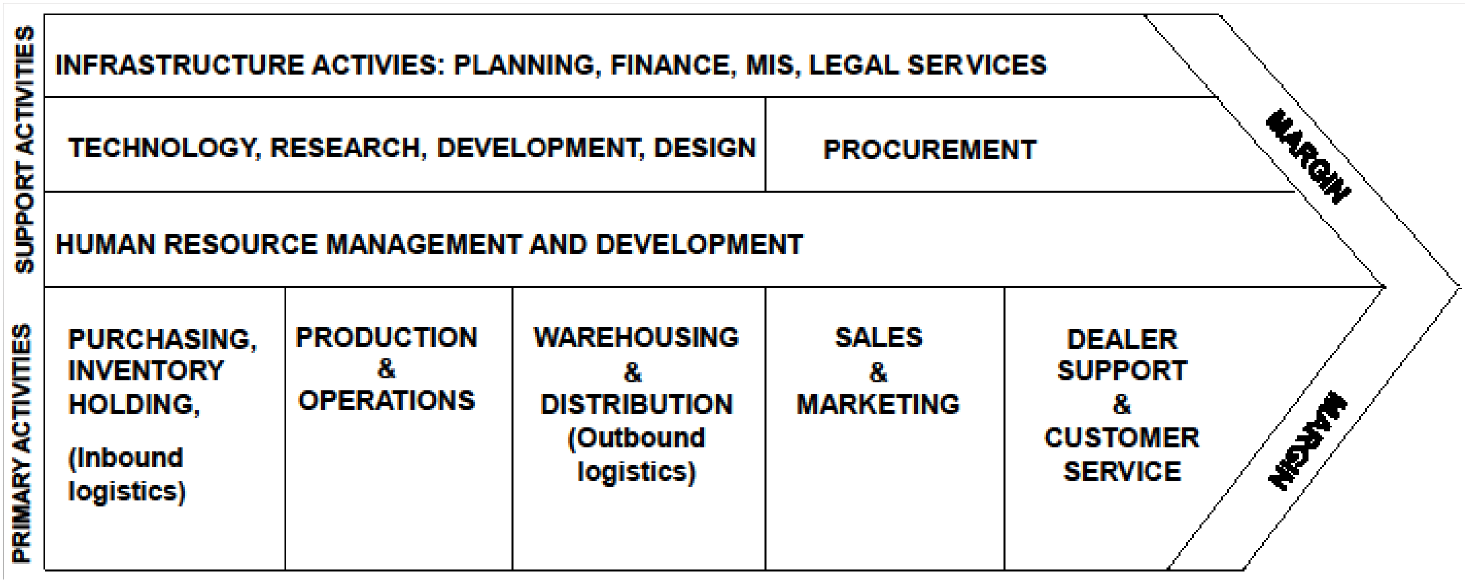
It is evident that Belgotex does have rare capabilities and resources to manufacture products that can give them a sustained competitive advantage but key to their future success in the market place will be their organisational skills. The company has gone through many changes in the past two years from board level to sales staff in the regions as well as changing their advertising agency which led to many delays in product launches for example. The company must be aware of the dangers disruptions like this may hold for a sustained competitive advantage in the market place.

3.11. Internal value chain analysis

The value chain tool (figure 3.4) was developed by Michael Porter in 1984 for identifying key processes within a business, assessing the business's competitive capabilities in each and thereby assessing wherein lies the source of competitive advantage (Evans, 2013:128-129; Ungerer *et al.,* 2016:170). The value chain includes all a company's activities that ultimately create value for buyers. In general, the value chain contains two types of activity:

- Primary activities, where the focus is on creating value for customers
- Support activities that facilitate, enable and support the execution and performance of the primary activities

Figure 3. 4: The basic internal value chain



Source: Evans (2013:129); Ungerer *et al.* (2016:170).

3.11.1. Belgotex Primary activities analysis

3.11.1.1. Supply chain management

Supply chain management refer to all activities associated with the procurement of energy, raw material, parts and components, merchandise and consumables from vendors; material handling, inspection, warehousing and inventory control used to receive, store and disseminate inputs to a product or service (Ungerer *et al.,* 2016:171).

Supply chain management describes the coordination of all supply chain activities, starting with raw materials and ending with a satisfied customer. As organisations strive to increase their competitiveness via product customisation, high quality, cost reductions, and speed to market, there is an added emphasis placed on the supply chain. The key objective is to structure the supply chain in such a manner that it maximizes the company's competitive advantage and benefits to the ultimate customer. The supply chain is about relationship management, downstream in the form of distributors and retailers, as well as upstream with all suppliers. Facilities together with good sourcing tactics, a thoughtful logistics plan, and the active management of the distribution network and location strategy all contribute to a great supply chain (Heizer *et al.,* 2017:482-483).

A manufacturer like Belgotex will always have four types of inventory: 1.) raw material (polypropylene chips for example), 2.) Work-in-progress goods (WIP carpet and yarn) 3.) Maintenance /repair/operating supply (machine parts), and 4.) Finished-goods inventory (finished roll stock in the warehouse as well as imported products).

Belgotex is a backward integrated manufacturer controlling the manufacturing process from raw materials to the final production process. The process of backward integration does assist Belgotex with the improvement of its cost position and competitiveness by performing a broader range of their vertical chain activities in-house rather than having them performed by outside suppliers. Some of these activities include, yarn extrusion, colour master batch production and the recycling of waste material back into the production process. More than one hectare of roof space under solar panels also contributes to a 5% reduction of electricity costs, with the vison to increase it to 10% by the end of 2019. Their rainwater harvesting plant assist with the management of scares natural water resources.

The change in consumer buying behaviour, seeking more hard flooring solutions has added stress to the overall Belgotex procurement and stock holding process in the past decade as these products cannot be produced locally but must be imported from European and Asian manufacturers. This has added to a very high level of inventory held by the company in the past three years and debtors increased by R80 000 000 and is not sustainable in the long run with a current slow inventory turnover rate of 2.57 times per annum. It is imminent that Belgotex is carrying too much inventory and should be managed better through a lean operations focus. The aim of lean is the eliminating of waste, through continuous improvement and focus on exactly what the customer wants. Inventory management is searching for the equilibrium between stock investment and customer service. The objective of good inventory levels and management is to minimize total costs. The essence for a company like Belgotex is to determine how much raw material, work in progress and finished goods to have on hand, to meet customer expectations on-time, without over-stocking and therefore experiencing negative impact on cash flow. It's about the trade-off between being out-of-stock and the cost of carry inventory.

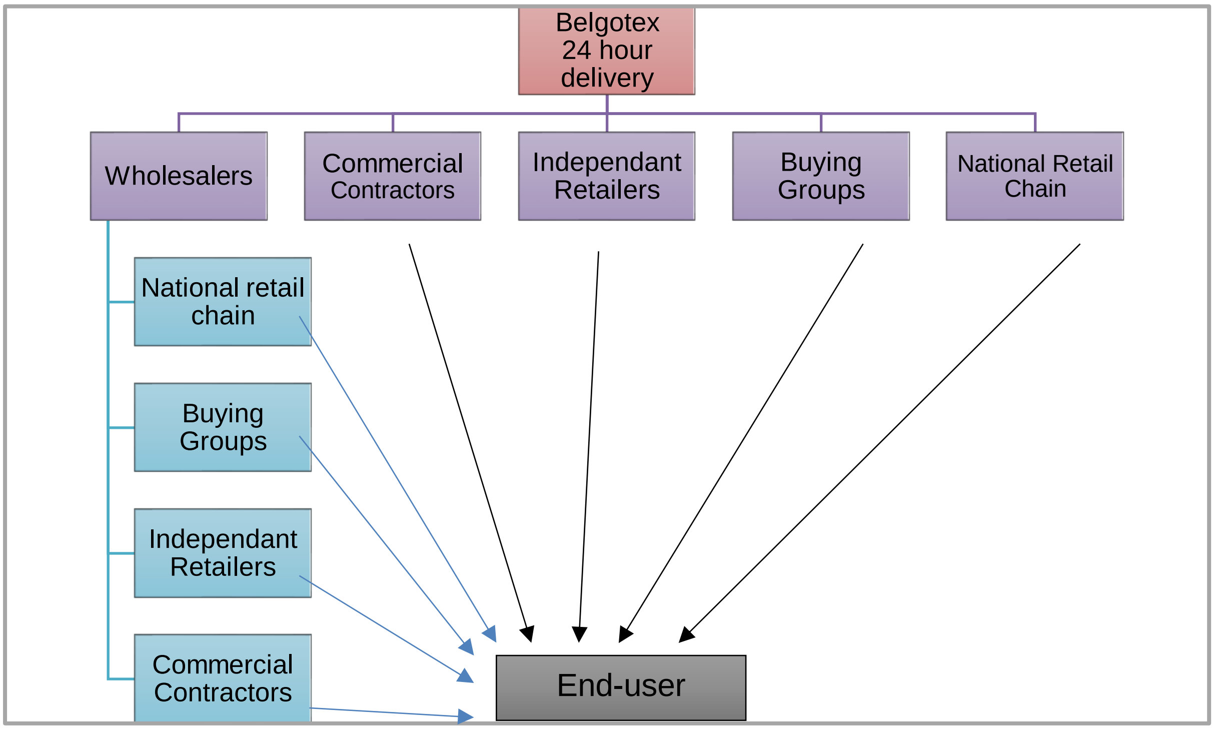
3.11.1.2. Production and operations

Production and operations refer to activities, costs and assets associated with transforming inputs into final product or service. A process strategy refers to those production and operations processes implemented by an organisation to transform resources into products or services to meet customer demands within a predefined budget. The use of a flow diagram is an ideal method to ensure that the manufacturing process reach the final and ultimate goal. The goal of a manufacturer is to make money. Goldratt (2004:73) simplified the process of making money by stating that the manufacturer needs to increase throughput, while simultaneously reducing both inventory and operating expense. It is important to critically analyse each process in the manufacturing chain to determine if they add value to the end result or create additional or unnecessary problems. Belgotex have many process strategies within the main product focus strategy of producing carpeting for various applications. The company recently launched a new range, that uses the same yarn system and colours to offer a good, better, best collection (Softology: 101, 201, 301). This concept enabled the company to extrude yarn tonnage in one colour for three different qualities and price points, emphasising the concept of increasing throughput, whilst reducing inventory and operating expense.

3.11.1.3. Warehousing and distribution

As a manufacturer the activities related to collecting, storing and physical distribution of the product to buyers is key to a sustainable business model. Belgotex have a 35 000/m2 warehouse facility in Pietermaritzburg which stock locally manufactured goods as well as imported products. The Belgotex strategy off overnight deliveries into Gauteng has been a vital contributor to their success over the past 36 years. Their strategy of fast efficient cost-effective deliveries of small, dispersed orders assisted with speed to market daily volumes. In recent years with the rising cost of fuel and transport this strategy has come under pressure though and overnight deliveries into country regions has been changed to forth nightly deliveries via a third-party courier service. Figure 3.5 illustrates a simplified distribution channel from the factory to the end-consumer.

Figure 3. 5: Simplified Belgotex product distribution network



3.11.1.4. Marketing and Sales

Marketing and sales refer to those activities, costs and assets used to create awareness and means through which customers can purchase products and services (Ungerer *et al.,* 2016:171). The Belgotex sales and marketing approach is clearly defined in table 3.3 as belongers and home makers in the homogenous psychographic, geographic, demographic and benefit market segments of the South African flooring landscape. The products aim to create lifestyle décor trend needs, for young married couples starting a family, through to older married couples with empty "nests", as well as commercial markets with the need for the unique design capabilities and attributes of carpeting in commercial spaces.

Table 3. 3: Belgotex sales and marketing approach

Belgotex Sales & Target Market	
Strategic Factors	**Multi-Segment Targeting**
Target Market	**Two or more well-defined consumer groups**: South African home owner flooring market Baby Boomers, generation X & Y
Benefits sought	Performance or wearability, warmth, design, ease of installation, safety
Lifestyle Characteristics & Life Cycle	Family Life-Cycle – Young married with children to middle aged married without children The Belongers, Home makers & trendsetters
Social Class	Middle, upper-middle and Professionals – LSM 7-10+
Age & Gender	35 – 65+, Female and Male
Target Market Needs	Soft Flooring products that appeals to almost any budget, style and décor trend. Usage: Heavy residential or commercial
Market Segments	**Psychographic Segment** **Benefit Segment** **Geographic Segment** **Demographic Segment** **Homogenous**
Geodemographics	Young Families living in larger owner occupied houses or appartments, townhouse complexes, older people in smaller houses and commercial spaces: hospitality, financial, corporate, government etc.
Market Size	Approximitely 100 million square meters, predominantly hard flooring.
Distribution	**National distribution network**: Independent Retailers Buying Groups Chain stores Wholesalers
Marketing Communication	All Suitable Media – Social media, Internet, Website, Dedicated Belgotex Showrooms, customer promotions Differs by Segment
Price	Distinct and separate price ranges for each consumer group – Best Cost strategy and Broad differentiation
Strategy	Target more than one distinct market segment via different marketing plans that can cater for each segment: • Broad differentiation strategy • Best Cost Provider strategy

Source: Lamb *et al.* (2015:226)

3.11.1.4.1. Branding

Branding is an essential part of any product or service and particularly in consumer markets. A brand is how a product or service can be linked, or the brand can even show the individuality of the product items. Brands are used to build the consumers perceptions of the values or characteristics represented by the brand name. According to Lamb *et al*. (2014:284) the characteristics that constitute a good brand is that it should be easy to pronounce, recognizable, rememberable, short, distinctive, describes the product, describes the use and benefit of the product, must have a positive connotation, reinforces the desired product image and is legally protectable in home and foreign markets of interest. The brand mark is the part of the brand that can be recognized but not vocalized. It is a symbol, design, image or coloring or lettering.

The old logo while not very simplistic, explained what the company was about by having the word floors in the Logo. Although a logo is not meant to describe the business it just symbolizes the quality of the product and service of the organization. Logos are designed to identify, not to explain. The meaning of a logo is important; however, an audience must be able to understand first, to gain a deeper understanding and become recognizable. It is good at first to have a logo that explains and then move onto a simpler version of the logo that identifies.

The old logo implies that Belgotex has something to do with floors. They enhanced the name Belgotex which placed focus on the name of the organization, the word floors did not take away that emphasis however added much needed value with just one word.

The new Belgotex logo, while being much more modern and simplistic does not help the audience understand what it is that they do. They have the word Belgotex as a visual however have taken out the word “floors”. This could be a move of confidence and assuming that people know who Belgotex is or it could be a move to simplify or modify the old logo and do what logos are meant to do, which is identify. They have taken out a valuable part in describing who they are and what it is that they do, by taking out one simple word. They have created a new symbol as well which visually shows a B which is the representation for the name Belgotex and placed an underscore next to it which represented a carpet. This could be a clever concept but during our factory visit the methodology had to be explained to the team before the team actually understood the meaning of the new logo. Initially when looking at the symbol our team thought it represented a B minus. People misinterpret what the symbol stands for.

Cognisance must be taken that the logo and design are pulled through to all Corporate stationary used by Belgotex. They have a strong understanding of getting the visual across to their customers. They have branded water bottles, flash drives, pens, notebooks, clothing worn by staff members and company fleet branding.

The Belgotex brand is shown in the look and feel of their showrooms as well, they have a clean, modern look and feel. When you walk into a Belgotex showroom you can already feel the quality, if quality could be a feeling, with how everything is displayed and laid out. They have different types of textiles displayed and customers can feel the different textures of each carpet or flooring piece, which also communicates the quality of the brand.

The important part is to make sure the visual part that you are sending out to your customers is a strong one, that shows the values and ideas of the organization. A logo The brand identity is there to produce a value proposition involving functional, emotional or even self-expressive benefits (Du Plessis & Rousseau, 2005). For a brand to be successful it must speak to customers, it must differentiate the organization from competitors and must be able to represent what the organization can do now and over time (Du Plessis & Rousseau, 2005).

The brand position is how the company wants customers to think, feel and perceive the brand compared to its competitors. The brand position is the specific place the brand wants to have in customer’s minds and hearts.

Brand acceptance is very hard to achieve, and marketers work hard to gain brand familiarity. Brand familiarity is the amount to which consumers recognize and accepts a brand. According to Lamb *et al*. (2014:289) there are five levels of brand familiarity:

- Brand rejection: Consumers or buyers will not buy the product.
- Brand non-recognition: Consumers do not know about the brand
- Brand recognition: Consumers know the brand, however are not buyers
- Brand preference: The consumer chooses this brand regularly and buys this brand above others.
- Brand insistence: This means that the consumers/buyers insist on having that specific brand and they will search for it (Mc Daniel & Terblanche, 2006). Brands have different levels of brand familiarity and thus they will differ from each other with their advertising and distribution.

Table 3. 4: Belgotex branding old versus new

Belgotex floors® A WORLD OF CHOICE	B_ Belgotex™

Belgotex has always been a B2B (Business to business) organization and they are striving to have more direct communication with the end user. Brands are offering value in an organization.

In 2017 Belgotex opened showrooms that are available for the direct public and is a step in the right direction to get brand recognition. The brand of Belgotex is the organizations “corporate image” as well as everything the company is involved in and everything owned by them. Everything should reflect the company’s brand. The brand builds the core of the business and shows everything the company believes and stands for. Belgotex is a family owned business and they have built the values and “brand” of the business accordingly.

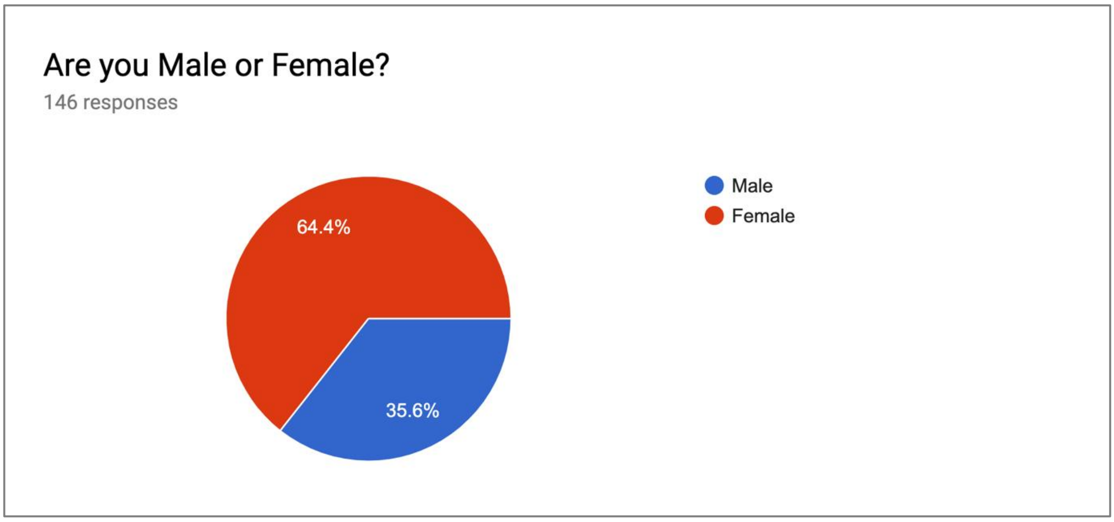
Belgotex understands how to get their brand across to the target audience but the question remains: Is their brand recognizable? When the audience sees the B_ symbol do they connect it to Belgotex? The general flooring trade will recognize the brand as they deal with Belgotex daily, however does the average consumer recognize it? If Belgotex wants to have a stronger recognition or presence with the B2C market, they need to make their brand stand out. It needs to have strong brand recognition from the consumers.

Based on our groups branding observation it was decided to do a brand recognition survey to test the effectiveness of the new brand.

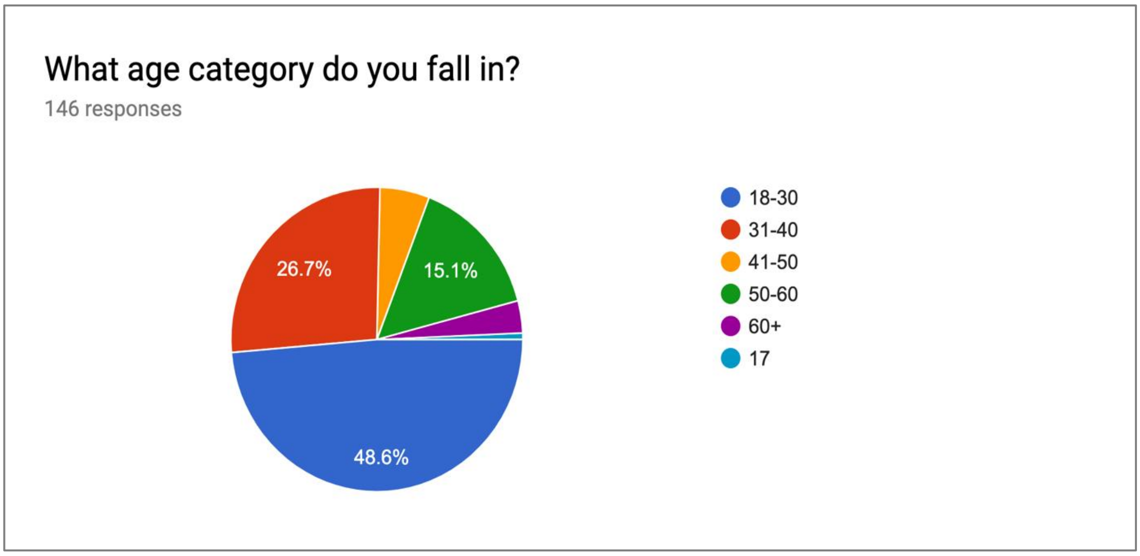
3.11.1.4.2. Branding survey

Section 1:

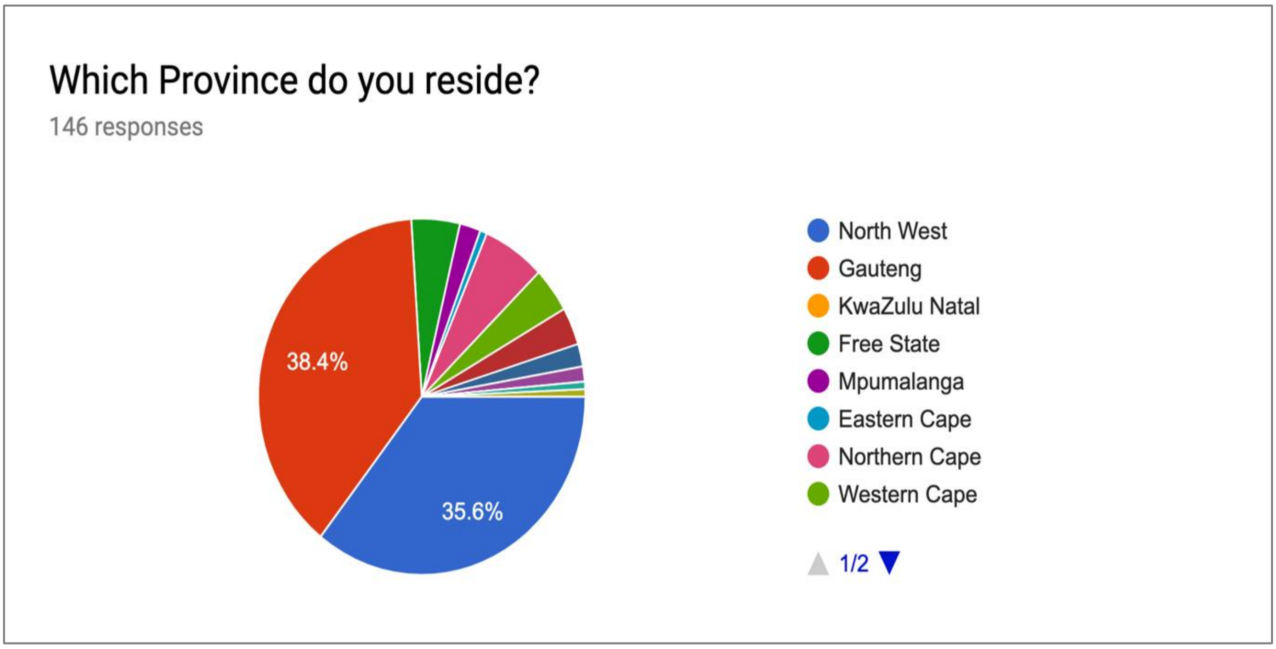
A survey was done to test recognition of the Belgotex brand. While the design of the logo is a beautiful, modern and clean-cut, we tested whether it was effective as a logo and part of the Belgotex Brand. A brand is a very complex part of any organisation. When building a brand, organizations must follow the correct methodology. Belgotex rebranded in 2017 and we surveyed brand recognition to confirm that the new brand is recognized within industries across South Africa. The following data is a result of conducting an elementary survey of a few questions to see what Belgotex's brand recognition is in the general market. In the Survey, we had 146 respondents. 64.4% Female and 35.6% Male.



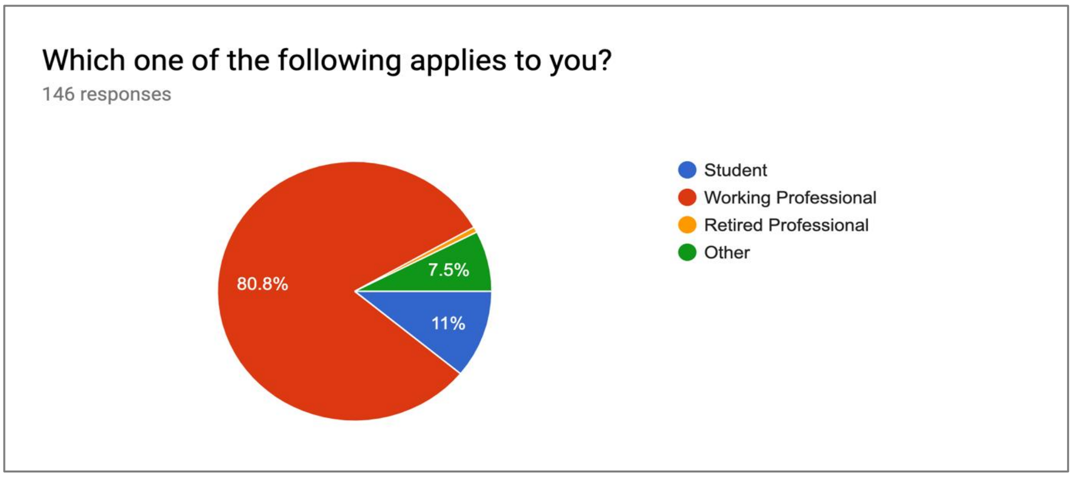
Out of the 146 Respondent's we had a diversity of ages taking part in the Survey. The Survey gave us a good indication of whether older or younger generations knew the brand.

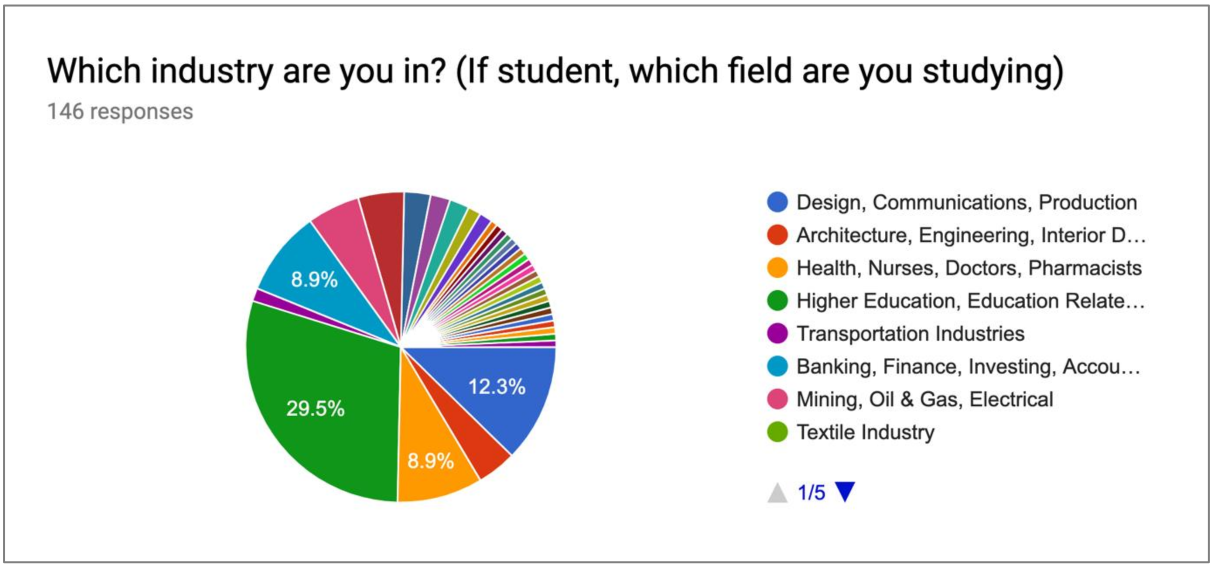


Our Survey consisted of participants from all over South Africa. We managed to get participants from eight provinces accepting the ninth one, Kwa-Zulu Natal. We also managed to get a few results from outside South Africa, including Abu Dhabi, UK, Canada and Australia. The Survey gave us a broad range of diversity in the answers we received.

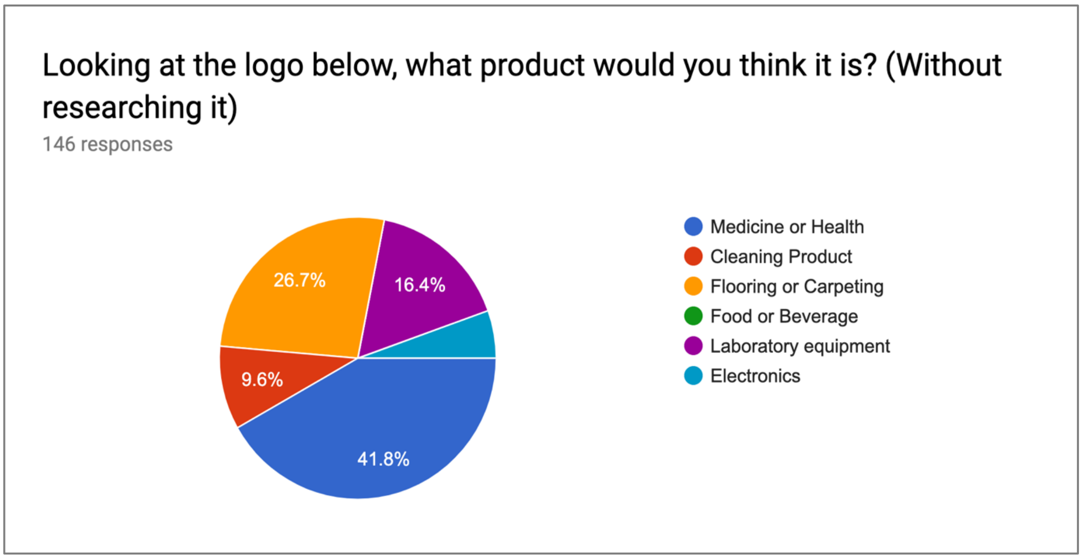


Our participants ranged from students, working professionals, retired professionals, as well as other entrepreneurs and groups.

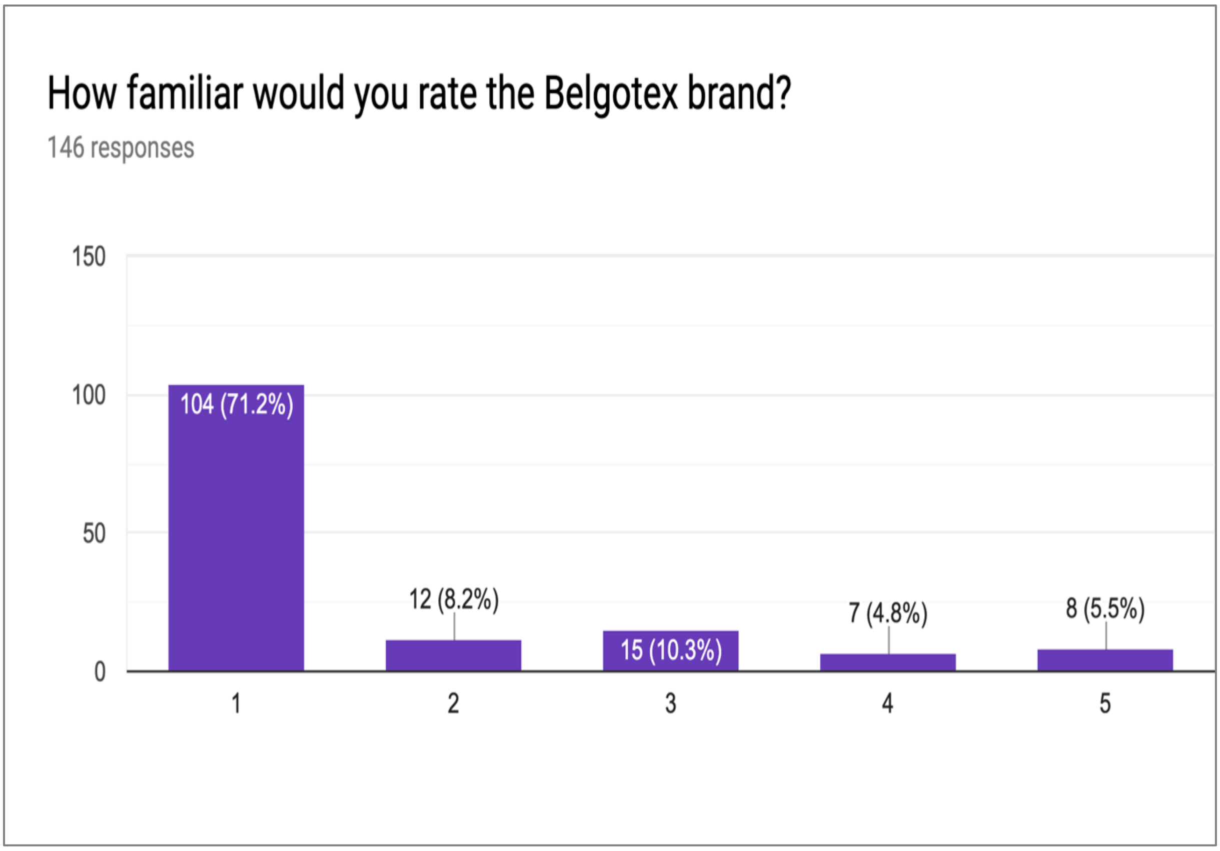




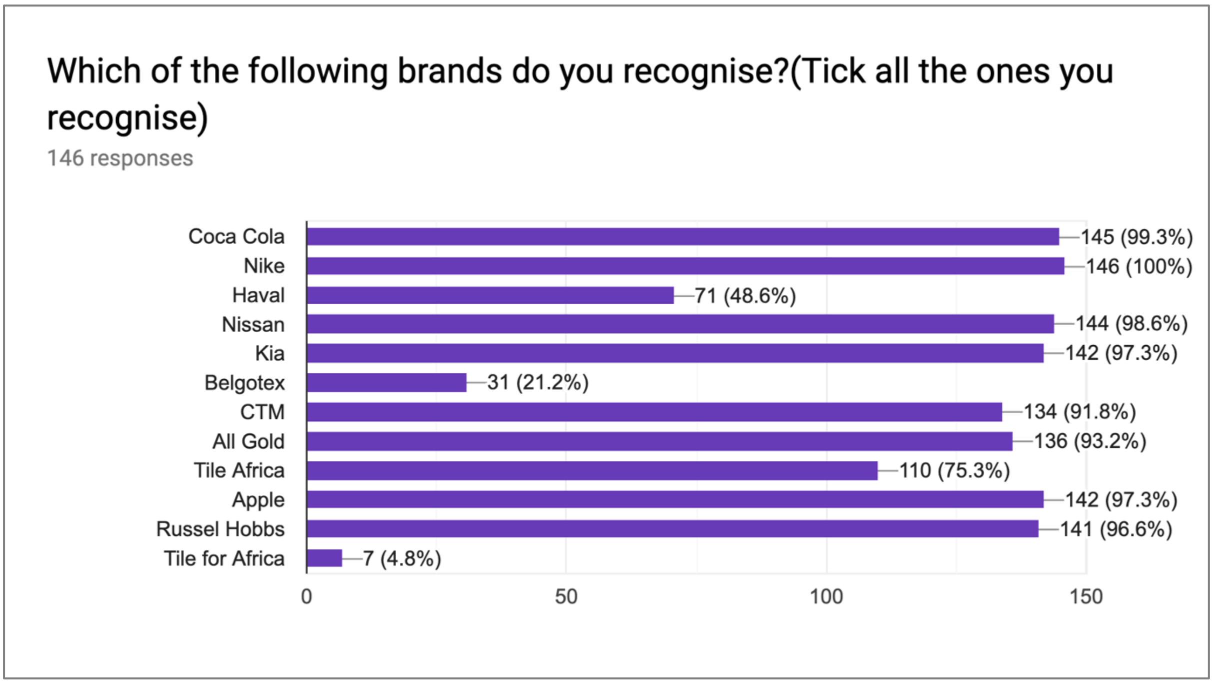
Different industries were tested as we wanted to test the brand recognition across industries. Successful brands can stretch across any sector, not only the one in that it resides in.



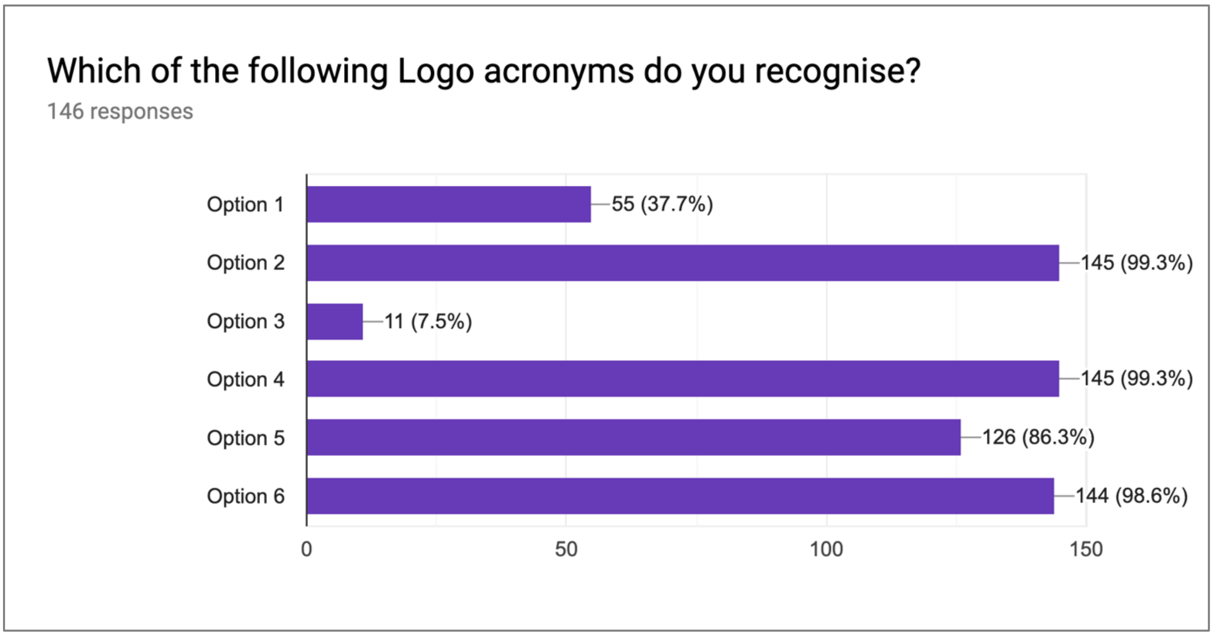
The above graph indicates how many participants knew what the Belgotex brand was and what they did. As shown above it is evident that a low percentage of people had knowledge of the business operations of Belgotex. Many who chose the Flooring and carpeting option from 26.7% indicated that it was a presumption because they are unfamiliar with Belgotex's operations. 41.8% said that Belgotex had something to do with medicine or health, 9.6% thought it was a cleaning Product, and 16,4% said it had to do with Laboratory equipment.



The results as indicated in the graph above shows that the Belgotex brand has insignificant recognition. It would be recommended that a more significant survey be done to confirm this conclusion. Out of the 146 participants, 104 participants (71,2%) had no idea who Belgotex was. 5.5% said that Belgotex is well-known to them. Belgotex has indicated that they want to move from B2B selling to B2C selling, meaning that it is essential that there is proper brand recognition.

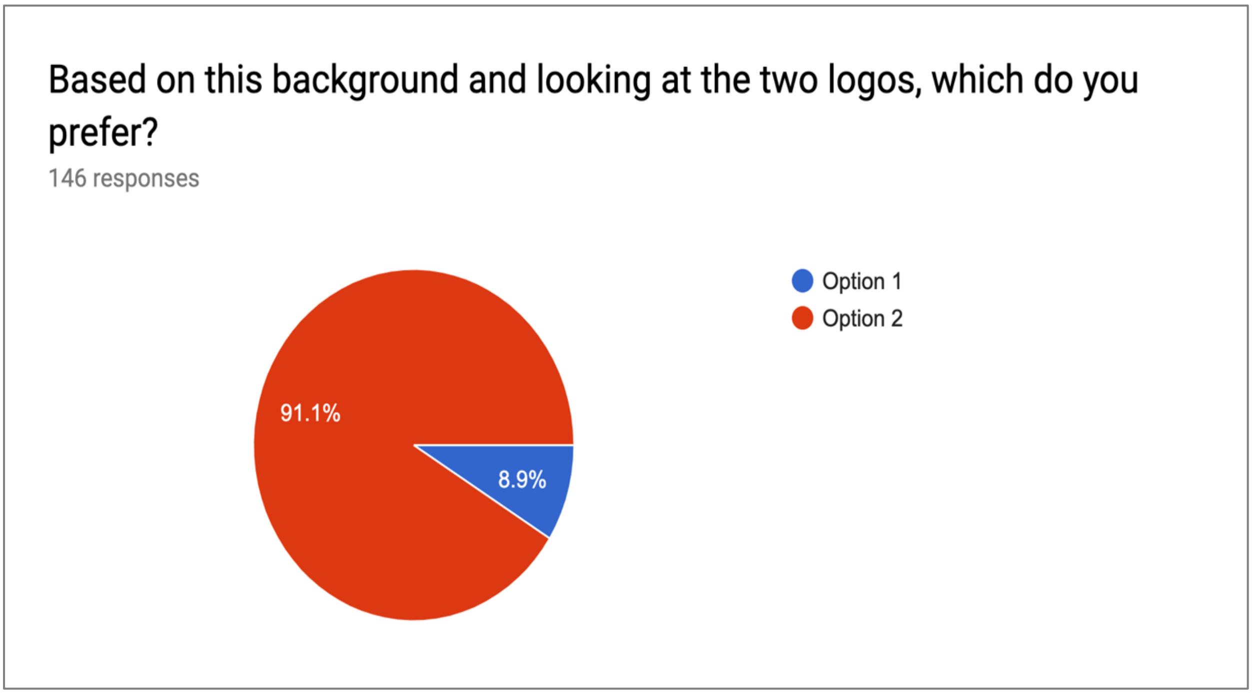


The above question tested brand recognition amongst 12 different companies, in different industries of which the Belgotex brand is included. Out of the 146 participants, 134 (91.8%) of them indicated that they are familiar with the “CTM” brand, 110 (75,3%) with the “Tile Africa” brand and 31 (21,2%) out of the 146 participants knew the Belgotex brand. “CTM” and “Tile Africa” are in similar markets to Belgotex with exceptional brand recognition as opposed to Belgotex with a much-reduced brand recognition in comparison.



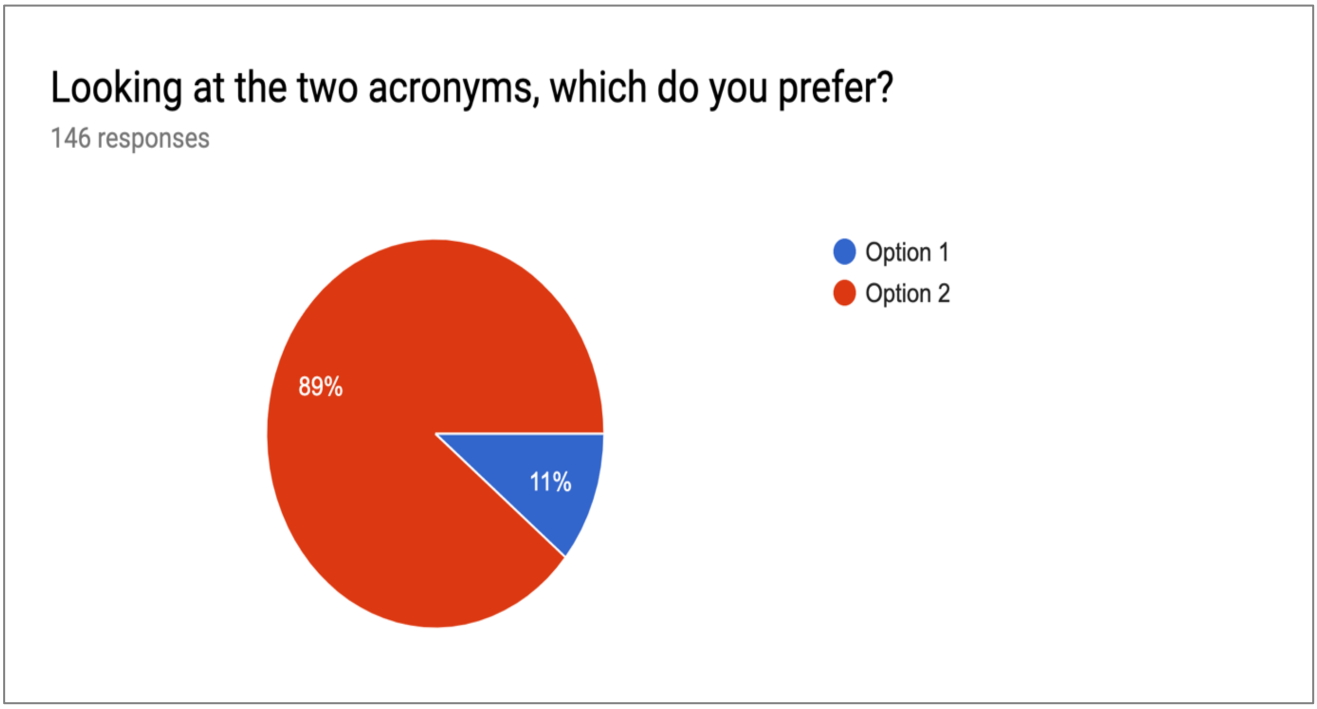
Section 2: Old or New Brand/Logo

In the second section of the Survey, we asked the participants to choose which of the logos and acronyms they preferred from the old and new Belgotex look and feel.



89% of the participants indicated that they preferred the old brand and 11% out of the 146 participants said they preferred the new logo. The following comments that were made is of importance:

- Participants indicated that when they look at the new logo, it has no meaning to them as there is not even a distinguishable B that is specifically for Belgotex. The font used is too general and could have been designed differently to be unique to Belgotex.
- Other comments said they liked the old logo with the different colouring and the word flooring in the logo as it gave it a different dimension.



Participants were also asked to choose between the acronyms, and 89% said that they preferred the acronym with the word Belgotex instead of the B_. 11% said they prefer the B_ due to it being cleaner, more modern and straightforward, however, that the B, as mentioned above, could have been designed better to be individually unique to Belgotex. The coloured block with swirled B in the old logo was more unusual.

Based on the data, we were able to determine that while the design of the new logo is acceptable to some participants, we will recommend that more research is done in this regard. Comments and survey results are available in a separate spreadsheet.

3.11.1.5. After-sales services

Belgotex offer excellent after sales services with sales teams and factory showrooms and offices in Cape Town, Port Elisabeth, Durban, Pietermaritzburg, Bloemfontein and Johannesburg. These aftersales services are geared to enhance or maintain the value of the products as well as building lasting customer relations with retailers and distributors who sell Belgotex products to the end-consumer.

The Belgotex sales team as well as the factory market services department provides support to the selling and deliveries of the products. A just in time delivery process assist retailers with the excellent service of providing stock when required. Trained sales staff can aid buyers on the technical aspects of the products as well as point of sale, merchandising and specification of the products to architects and designers. Point of sales includes sample stands and carousels, posters, samples, brochures and product catalogues. Technical assistance to customers also includes training from Belgotex, enquiry services and stocking advice and customer technical support in dealing with complaints.

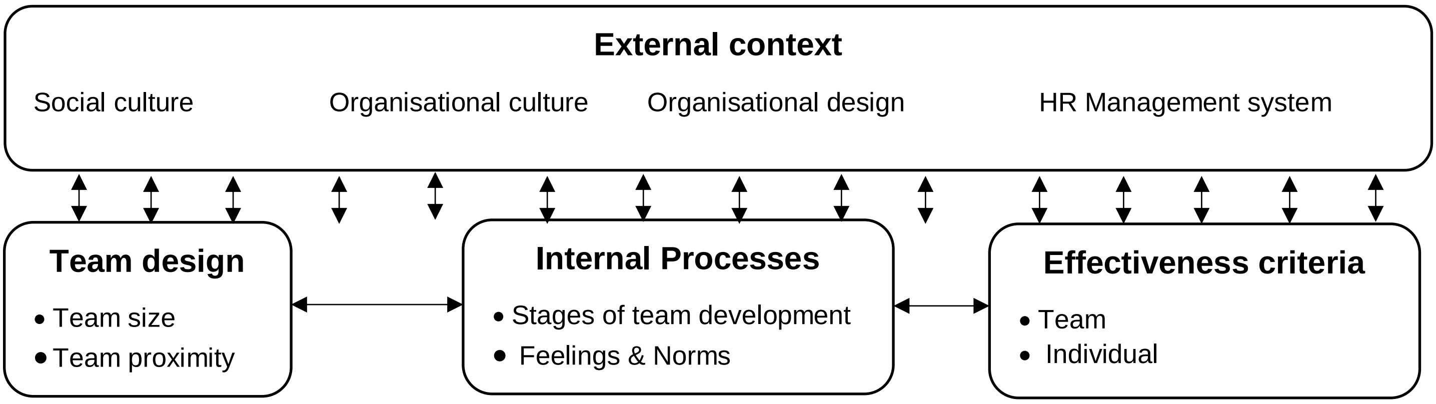
3.11.2 Belgotex support activities

3.11.2.1. Human resource management and development

There is a close correlation between processes and human capital. Operations management focus closely on the relationship between the two, i.e. the tools available to operations managers for achieving a competitive advantage via human resource management (Heizer *et al.,* 2017:448). The what, when, where, who, how and procedures of any business boils down to the human resource strategy (figure 3.6):

- The product mix and process strategies may determine the people needed for the job;
- Technology, equipment, and processes may have implications for job safety and content;
- Location decisions can have an impact on the work environment of employees;
- Layout decisions can have an influence on job content.

Figure 3. 6: Effective human-resource management system



Source: Hellriegel *et al.* (2016:483)

The following three distinct areas should get attention when an effective and sustainable human resource strategy is developed:

- **Labour Planning:** Labour planning refers to staffing policies that deal with a.) Employment stability, b.) Work schedules, and c.) Work rules. It deals with stability policies that could treat labour as a variable cost and labour follow demand exactly or as an employment constant. Holding employment constant could lead to employees not always fully utilized when demand is low within the manufacturing environment.
- **Job Design:** deals with specific tasks allocated to a specific job. Heizer *et al.* (2017:450) mentions 5 components of job design: 1.) job specialisation, 2.) job expansion, 3.) psychological components, 4.) self-direct teams, and 5.) motivation and incentive systems.
- **Labour standards:** refer to the amount of time required to finish a specific job. Effective manpower planning depends on a good knowledge of the labour required.

Ergonomics, meaning the relationship between humans, the environment and machines as well as ethical behaviour needs to form part of a well-designed HR management system. Ethical behaviour in the workplace is all about a mutual trust between employer and employee and commitment should be aligned with issues of fairness and equity. It is important to note that employees should be educated specifically in the correct use of the required equipment, the work rules and work environment determined, and all requirements should be enforced through an effective human-resource management system as shown in figure 3.6.

Belgotex prefer to hold employment levels constant to ensure stability and skills within the organisation and will only treat labour as a variable cost in the most difficult economic climate when production has basically come to a complete halt. The company has also implemented in the past two years a good self-development and skills development strategy in all departments of the organisation

Being an ISO9001 and ISO14001 company means that management give close attention to production processes, standards and quality. The health and safety, and environmental requirements for the workplace are strictly adhered to. Their payoff line is: yours in people, planet and product. They do not have a high staff turnover as job security and job satisfaction is of a high priority to the company.

Numerous studies have examined the relationship between how well integrated HR is with the business strategy and business performance (c.f., Bennett, Ketchen, & Schultz, 1998; Huselid, 1993; Martell & Carroll, 1995; Wright, McMahan, McCormick, & Sherman, 1998) With Belgotex the Human resource department was merely seen as where the employees monthly pay checks comes from. Employees were experiencing manipulation and unfairness with their day to day tasks, due to the HR department not giving attention to the needs of their employees.

However, changes started to rise from 2016 when Belgotex decided to change their view on HR therefore they employed a new HR manager who was promote to HR director in 2018. Between 2016 -2018 the company started a cultural questionnaire exercise with a DNA initiative to get the answers to questions asking *where are we coming from? Where are we now?* and *Where are we possibly going in the future?* With the results of this exercise a strategy was compiled to narrow the gap between the old and the new (DNA initiative). With all the neglect of cultural diversity from 1994 to be realised in 2017 only, some haste decisions were made to rectify the said issue at hand.

Gathering all this information and the shortfall of HR support up until 2016/2017 the most important aspect to utilize is to focus on the current employees employed, and making sure they get the relevant training required to pull Belgotex up and through the rough they are currently in. The focus at hand is to compile a HR Strategy that will mainly be focused on Talent Management, Organisational Culture analysis, Ethical

Practices with regards to grievances and policies, and lastly as mentioned in Belgotex's DNA the "Guardian" app for raising complaints anonymous.

Talent Management

Talent management is not just one of those regular HR words we hear every day, it's a company's commitment to source, employ and retain the most talented employees available on the market.

Talent management should be a main HR business strategy especially for a company which main revenue is collected by sales. Some key factors that will be needed is to focus on certain key employees to ensure that the right individual is equipped with the right tools in the right role.

- Succession Planning - To know the talent that is currently at hand within the company. What roles are important to ensure success? Are there currently people employed or equipped to fill those roles needed? Plans need to be ready and at hand to ensure that decisions can be made to keep the company running smoothly.

- Learning and Motivating – Learning is more than just training. Learning is a key component in the procurement of data and abilities, that yields information leading to the experience needed. As soon as employees sees how their "learning" development grows and has an impact on the company, then only will they experience and see how significant they are to the company.

- Performance Management – Ensuring that an employee with a talent for sales or manufacturing are lined up with roles that suit them. Aligning talent with objectives.

- Strategic Employee Planning – Key personnel should be recognized together with the strategic plan and objectives to move the company forward towards the goal.

- Talent Acquisition and Retention – New talent is always essential, a new perspective on an old problem tend to come up with a solution that was previously missed. The same can be said about hiring an individual that is currently employed at the company to be cost effective. When working with talent pooling, an internal as well as external look is always required.

- Career Development – Talent retention or hiring a person from within is preferable. Support potential and upcoming leaders by equipping them with the tools needed so they can propel with their profession.

- Compensation – Aligning objectives with incentives implies that employees are recognized, and their value to the company is not overlooked.

Talent management is important because of two main reasons. The first ensures that organizations acquire and retain essential talent successfully. The second with the extend to what these employees are engaged to. Morton (2005, p11) “Talent management is integral to engaging employees in the organization”

- **Organizational Culture**

According to Michael Morcos (2018) “*Organization culture is the characteristic and the tangible personality originated inside every organization. Even If we are not familiar with companies like Starbucks, Google or WWF. Their names represent the taste of their workplaces, the attitude, the unwritten protocol of interactions and the company values”.*

There are a few aspects of Organizational Culture that will be sufficient to assist the HR director to analyze and ensure that a healthy organizational culture prevails. To be a healthy organizational culture all employees, supervisors and managers should all be on the same page as the People in charge. The benefits of a good organizational culture mean that everybody from the top to the bottom is involved and when someone is marginalized the culture can be improved.

Unfortunately to ensure a healthy culture one must also look at the unhealthy aspects or traits thereof

- When Process is more important to management than purpose.
- Authority leads service, excessive exercise of power by either supervisors or managers will lead to a total system collapse.

Healthy Culture entails some off the following trademarks:

- Defined Purpose – goals are clear, and everybody knows what they must do to reach these goals.
- Service of excellence – not only to customers, but service between employees and to the company itself. Sense of "want" to work for Belgotex
- Adaptability – A healthy organizational culture in a company mean that they can adapt to any kind of markets good or bad, to seize opportunities when the need comes.

In an article in Harvard Business Review, the writers said that, *Organizational culture is the collective effect of the common beliefs, behaviors, and values of the people within a company. Those norms within any organization regulate how employees perform and serve customers, how they co-operate with each other, whether they feel motivated to meet goals, and if they are sincerely into the company's overall mission. How are employees getting their work done? Independently or collaboratively? Do employees feel inspired, committed, and engaged, or annoyed, overworked, and underappreciated?* (Groysberg, Lee, Price & Cheng, 2018)

There are 4 main traits of organizational culture namely, involvement, consistency, adaptability, and mission. These traits (involvement & adaptability) have a great impact on being indicators of flexibility, responsiveness and openness with great results to company growth. The remaining traits (consistency & mission) are more focused on integration direction and the vision. Together these traits are all strong predictors of effectiveness and growth for large companies.

- **Ethical Practices / Policies and Procedures / Code of Conduct**

Belgotex does have a *Corporate Social Responsibility (CSR) Policy* available on their website but is this relatable with a code of conduct? *The basic definition of the code of conduct is a set of conventional principles an expectation that are binding on any* *person who is a member of a particular group.* This definition relates to policies and procedures, grievance policies, ethics and discipline.

The effectiveness of a code of conduct had been widely discussed and tested companies with and without a code of conduct. When maintaining a high-quality code of conduct they will be higher ranked on the CSR ranking system. The benefits reaped for companies that are in par with the issues of CSR and are addressing them are becoming clearer and tempting.

Benefits proposed with a formal code of conduct are often parallel towards the benefits associated with a healthy organizational culture and hinge upon the notion that a full comprehensive code will directly lead to CSR performance. More and more business managers are establishing an ethical code of conduct just for the sake of appearance and its value to miss lead criticism and investigation into their unethical practices; this must be avoided at all cost.

Anonymous complaints may be a benefit, but it may also lead to serious drawbacks. How would Belgotex know how much credence should be given to a complaint that was risen anonymous? Will all complaints be legitimate, or will they be malicious?

With the implementation of an anonymous complaint app/process some effective practices should be in place:

- The credibility of the complaint.
- That information given with complaint is relevant enough to peruse.
- Determine whether the situation is seen as an urgent complaint that needs immediate reaction.
- What impact will the claim / complaint have on other employees and their wellbeing?
- Impact on the employer and day to day operations.
- All complaints must be documented and should come under the attention of higher management

Furthermore, a complaint’s code should be implemented to ensure that all relevant information that is given with the complaint is anonymously and that the information is protected by HR at all times. The code should be included with the code of conduct and should also be explained to all employees, managers and top management.

Regular reports should also be compiled to investigate when certain complaints air, to associate them with work load and deadlines.

3.11.2.2. Technology

Modern companies need to use platforms to access ecosystems of talent, technology, and information. In a world connected by digital technology, power no longer resides at the top of value chains, but rather at the centre of networks, and the best way to become a dominant player is to become an indispensable partner (Satell, 2017:168). Belgotex has a strong online presence using online technology and the Internet of Things to expand their business. Through their webpage, Facebook and Instagram they are working on creating a new footprint in a globalised with a new era of customers. Belgotex collaborates closely with suppliers, continuously streamline their supply chain and internal operations to maximise their cost savings. Technology, like Facebook, Instagram and their webpage are utilized by Belgotex to communicate and inspire every home directly, bringing Belgotex closer to home. In fully utilizing internet capabilities and applications they extend geographical reach. The Internet gives customers the power to research the product offering and to research the market for the best value. Belgotex offer suggested selling prices on their website of their products making the price of flooring a known value item (KVI).

Advances in the technology can dramatically alter an industry's landscape and gives birth to new and better products at lower costs, offering new differentiating capabilities. The use of technology has also enhanced their pursuit to go green and to be a more sustainable corporate citizen. The company aims to have 10% of manufacturing energy requirements to be derived from renewable energy resources by the end of 2019 and introduced rainwater harvesting as well as 100% solution dyed technology as part of their vision of asking less of the planet's resources.

- **Facebook**

Belgotex has a Facebook page with 111 504 followers. They update their page on a regular basis and have ongoing updates on new developments that the organization is currently busy with. They update followers on upcoming events that are open to the public as well as new trends in the carpet industry. The look and feel of the Belgotex brand are modern and clean and shown in the images and videos that are shared on the page. The Facebook page is a designer's paradise of ideas of how Belgotex could add an elegance and quality to an interior design. The Facebook page is another example of how thorough Belgotex is with pulling the look and feel through everything involved with the company. Anything represents the company and they have made sure that the style of that "anything" is constant.

One element on the Facebook page where Belgotex can still improve is user-engagement. They lack posts where they invite followers to participate in the conversation and this is an important aspect to make your company's voice heard through the social media platform.

- **Instagram**

Instagram is a social media site that focus mainly on the visual aspect of postings. Creating a successful Instagram page, means presenting beautiful and visually pleasing posts. To create a great visual page, it is also important, for not only the individual posts to be good, but for all posts to create an impressive visual whole. Belgotex's Instagram page has a lot of potential, because most of the individual posts and photos are really good and creative. The visual whole still needs work though. Belgotex finds themselves in the décor industry and their page needs to reflect the creativity and design that comes with this industry. Their page needs to inspire and help potential clients envision how their dream house or business will look, styled with Belgotex products. Human interest posts and user interaction are also two elements lacking on Belgotex's Instagram page.

3.11.2.3. Procurement

Procurement and inventory are important parts of the manufacturing process. Belgotex uses a Make-to-stock (push-type) production approach for their products. Make-to-stock (MTS) can be defined as a production process of building up stock inventory to prevent stockouts and are produced based on sales forecasts (lean-manufacturing).

As seen noticed in the Belgotex ratio analysis, has a large inventory. In future it might be necessary to look at an alternative inventory management framework that controls inventory value without losing customers. The objective is to find ways to reduce inventory and free-up working capital, while maintaining service levels. By looking at the following best practices the aim is to determine the best strategic approach.

The approach to inventory management for Belgotex, should be to obtain the balance between the needs of reducing inventory and increasing service levels. Keeping inventory as low as possible without losing customers.

As seen in our investigation of Belgotex, the company is holding inventories to have enough stock to fulfil sales or better align themselves to a strategic advantage over their competitors. However, excess inventories take up a lot of space, ties up assets, lowers cash flow and indicates that inventory is not properly managed. Inventory control is about managing stock in such a way that will ensure inventory is enough to satisfy customer demands (Murphy and Wood 2014).

Fulfilling customer demands can be managed by an interconnected and collaboration strategy through planning, forecasting and replenishment (CPFR) to combine several trading partners as shown in figure 3.7 below.

Figure 3. 7: Collaboration, planning, forecasting and replenishment model

Source: Rushton *et al*. (2011:207)

The CPFR model is a collaborative business approach that involves the client and the supplier working together as well as linking their computer systems to improve efficiency of their supply chain. By implementing a CPFR model the supplier has visibility of inventory held by the client as well as the latest sales and forecast (Rushton *et al*., 2011: 206).

The CPFR model has had several success factors as a survey of 21 companies in the USA (Sliwa, 2002) reported:

- improved relationship with trading partners (57 per cent);
- increased service levels (38 per cent);
- reduced stock outages (38 per cent);
- increased sales (38 per cent);
- decreased inventory (29 per cent);
- forecast accuracy (29 per cent);
- improved internal communications (24 per cent);
- better asset utilization (14 per cent).

3.11.2.4. Research and development

New product development is an important aspect of the manufacturing business. It remains a vital part of leading companies' strategy as tend to generate a substantial portion of their sales from products less than five years old. Companies need to understand, appreciate and examine the life cycle dynamics of a product in the context of the introduction phase which includes research and development, the growth phase, maturity phase and lastly the decline phase. They should focus constantly on establishing appropriate strategies for each phase of the product life cycle with the ultimate goal to identify those products with the highest earning potential for the organisation (Heizer, 2017: 200-205).

Aggressive new product development strategies need to focus on open communication with customers, have an innovative product development culture, aggressive R&D (research & development), strong leadership, formal incentives and allow for the training of staff and customers of new products.

Belgotex has a very creative R&D department with a passion for innovative design and quality. R&D is strongly linked to the production team who meet with them on a weekly basis to discuss new developments and the actual feasibility of a new product or design to be manufactured in the factory. It's all about machine capabilities.

New products and designs are also closely linked to finance as the company has a policy of continuously improving and upgrading machinery and equipment. This philosophy has kept the company profitable and growing for more than 35 years, giving them substantial market share in the SA soft flooring industry.

New products are not only designed and developed for the local market as R&D also works closely with international customers to design new products for international markets. Some of these products that were originally developed for these markets, were eventually also launched on the local market with great success like the popular Baltimore range. The Belgotex Green journey and sustainability philosophy form an integrated part of all new product developments.

R&D, together with senior management and senior production team often travel overseas to flooring shows across the globe, like Domotex in Germany and NeoCon in Chicago annually to study new flooring trends and designs. After these shows the team will come back inspired with new designs and vision for future products.

Once a new product has been designed, the next step will be to run tests to finalise a colour selection. Pricing also plays a role as price points needs to be analysed and gaps in the market identified. Decisions on yarn systems and types also forms part of the development process. If the product is aimed as the commercial market and high traffic areas, the yarn system will be a solution dyed nylon system at a higher price point. The residential market is more price driven and often polypropylene will be the yarn system of choice due to its cost effectiveness.

When a product is in development stage, trail samples will be shown to relevant external parties to get a feel of the feasibility of the design and colours, before final decisions are made.

In the entire process quality always plays a vital role and Belgotex is well known in the industry for the fact that they often "over engineer" a new product in their absolute quest for quality and superior performance of their products. This is the reason why the company can offer a 20-year wear and durability warrantee on all their products.

Marketing also plays a crucial role, as sampling, sample sizes, sample presentations, media briefings, display stands and merchandising all need to be finalised before launch.

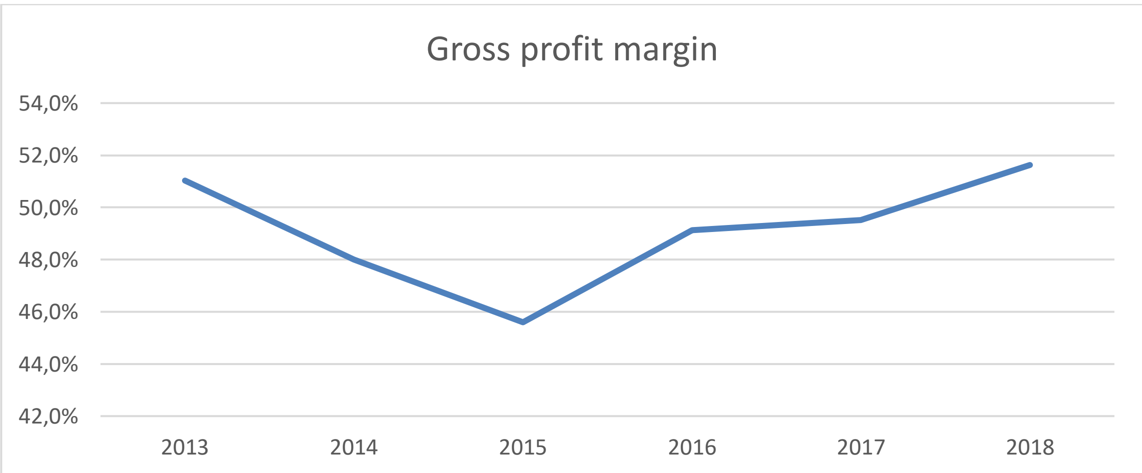
The same process also applies to imported products. Managers, from both sales, R&D and marketing will travel to overseas suppliers to source product. Again, a need must be identified in the market place, trends and pricing must be considered, logistics, sampling, colour schemes for the local market carefully chosen and all imported products must meet the stringent Belgotex quality measures and standards before final approval.

3.11.2.5. Finance

A financial analysis of an organisation is an integral part of the overall internal strategic analysis (Ungerer, 2016:181). The purpose is to determine the financial health of the firm. The following key financial ratios were focussed on in the financial analysis of Belgotex:

- **Gross profit margin** as it reveals how much a firm earns, taking into consideration the costs that it incurs for producing its products or services. Gross profit margin is a good indication of how profitable a firm is at the most fundamental level – how efficiently a firm uses its resources, materials and labour (Ungerer, 2016:182).

Figure 3. 8: Belgotex gross profit margin 2016 - 2018



Source: Belgotex (2019)

Figure 3.8 shows Belgotex's gross profit margin for the past 6 years. There are serval layers of profitability that are analysed to assess the performance of a company. Gross profit, the first level of profitability, reveal the amount of money left from sales after deducting the cost of goods sold. An adequate gross margin is needed to pay for operation expenses and unless changes are made to the business model the gross profit margin should remain stable.

An average gross profit margin of 49.1% was maintained throughout the six years. However, a 5.4% decline in 2015 from 2013 is visible due to unstable raw materials pricing during this period as well as unforeseen exchange rate fluctuations. It is important to note that all raw material prices even those procured from SASOL is linked to the Dollar. Any changes in the Dollar price will affect the local market either positive or negative. A polypropylene chip will be in the production system on average for eleven months from date of purchase to final return on investment. All these variables can have an impact on gross profits.

In 2018 the gross profit margin stablised again after an increase of 6% from the 2015 low of 45.6%. The reason for this fluctuation is due to a decrease in the direct cost of producing products. The sales prices of Belgotex is market related and that can be seen in the above inflation rate growth of sales over the six years except for 2018 were there was a decline in sales of 7.7%.

The international benchmark for gross profit on the flooring industry (carpets, vinyl and tile (wood and ceramic)) which includes installation was 34.3% (2016), 34.1% (2017) and 33.9% (2018).

Belgotex thus have a better gross profit margins in each year and shows an increase of 2.1% in gross profit margins in 2018 where the industry showed a decline in gross profit of 0.2%.

- **Return on sales** is a ratio that evaluates an entity's operating performance. It indicates how much profit a business makes after paying for the variable costs of production such as wages and raw materials. It measures how efficiently a company turns sales into profit and investors and creditors rely on this ratio for insights regarding potential dividends, reinvestments potential and a company's ability to repay debt.

Figure 3. 9 Belgotex return on sales 2016 - 2018

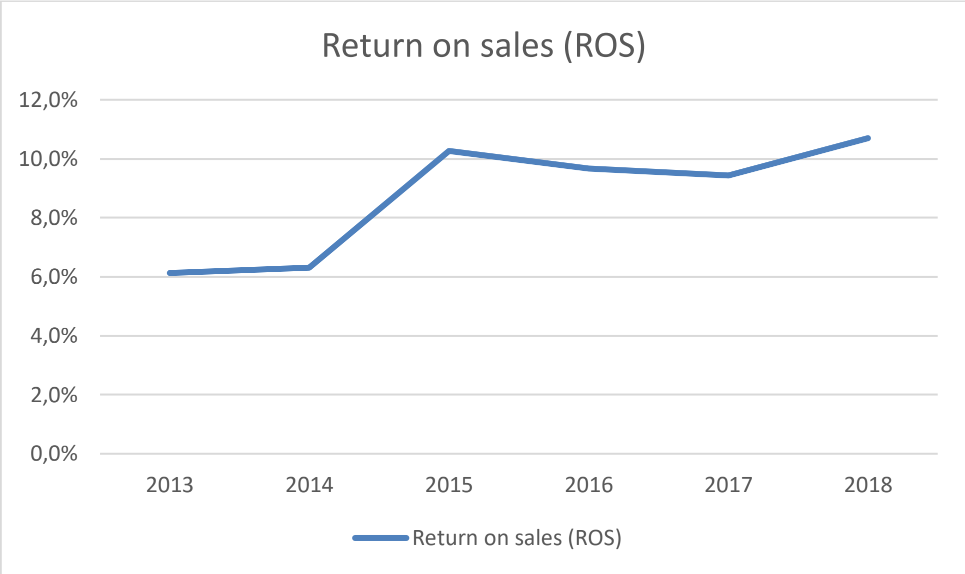
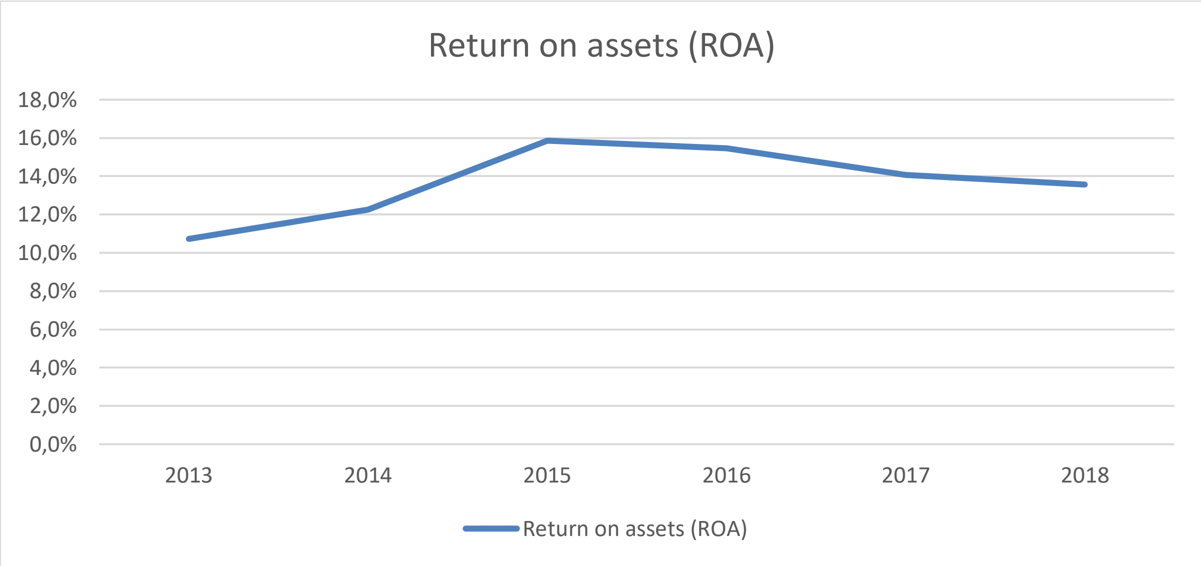


Figure 3.9 indicates an increase from 6.1% in 2013 to 10.7% in 2018. Belogtex is growing more efficiently in how much profit is being produced per rand of sales. The flooring industry had a net profit percentage of 3.9% in 2018. Belgotex manage to retain 3.5 times more profit for distribution than the industry benchmark.

- **The current ratio** indicates the ability of the business to settle short-term obligations (current liabilities) using short-term assets (current assets). The general norm is a 2:1 ratio. Belogtex have maintained a very good current ratio over the past 6 years (2013: 3.96; 2014:4.82; 2015: 3.83; 2016: 3.90; 2017: 3.71; 2018: 4.12) and will not have a problem with their short-term obligations. Although this ratio means that Belgotex can cover their current liabilities three times, it also indicates that they are not using their current assets efficiently or managing their working capital. A very high level of inventory is held, and debtors increased by R80 000 000 and their collection period increased from 60 days in 2013 to 90 days in 2018.

- **Return on assets** (figure 3.10) shows the percentage profit that the company earns in relation to its overall resources and it gives a good indication of how efficiently management uses the firm's assets to generate profit. The ROA indicate how effectively the company can convert the money invested (assets) into net income.

Figure 3. 10: Belgotex return on assets 2016 - 2018



Source: Belgotex (2019)

The ROA of Belgotex (figure 3.9) have increased from 10.7% in 2013 to 13.6% in 2018 but between 2015 and 2018 a steadily decrease in ROA can be seen. The decrease in ROA can be due to one or a combination of the following reasons:

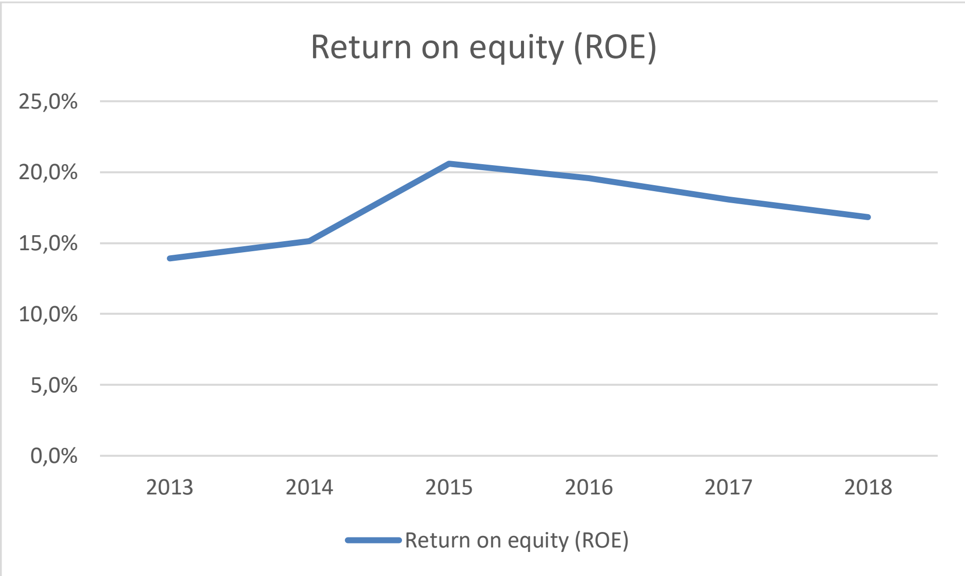
Falling profits

- Diminishing assets productivity
- Working capital inefficiencies
- Massive asset acquisitions (The acquisition of three major wholesalers: Selborne Carpets, Fotakis Bros. & M.F. Wholesalers)

The balance sheet of Belgotex indicated a R 366 165 320 increase in the operating assets of the company between 2013 and 2018. The productivity levels of these acquired assets are the reason for the drop in ROA and is due to increased credit terms with customers and a higher stock level.

- **Return on equity** is the amount of net income returned as a percentage of shareholders' equity. This is one of the most important financial ratios and profitability metrics. Like ROA the return on equity (ROE) measures how effectively management is using the company's assets to create profits, however debt is included by using shareholder equity when calculating the ROE. The ROE of companies will vary depending on the industry and size of the company. Figure 3.11 give an indication of Belgotex return on equity which has declined in the past three years and a possible sign of current difficult trading environment of the flooring industry in general.

Figure 3. 11: Belgotex return on equity 2016 - 2018



Source: Belgotex (2019)

- Like the current ratio the **quick ratio** measures the ability of the company to settle short-term obligations but is a bit more conservative as it only includes assets that can be converted to cash in a short period of time. Less liquate assets like inventory are excluded from the calculation. The quick ratio of Belotex is also above average. The ideal ratio is 1:1. Belgotex needs to reconsider credit terms as they are carrying a high level of debtors.

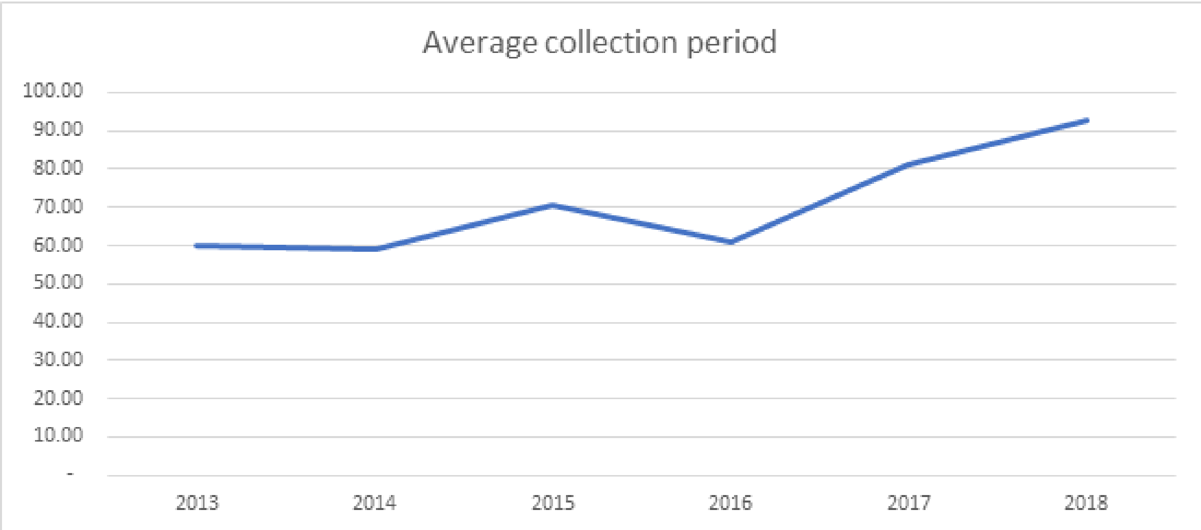
- The debt-to-asset ratio measures the company's assets that are financed by debt, rather than equity. This ratio is used by investors to evaluate if a company will be able to not only pay its current debt obligation but if the company will also be able to pay a return on their investments. Creditors will use this ratio to assess how much debt the company already have and if they are able to pay their existing debt. Based on this, a creditor will decide if new credit applications will be approved or declined. The current debt-to-asset ratio for Belgotex (0.19) is looking good and the company should not have a problem when applying for additional debt.

- **The debt-to-equity** ratio shows the presentation of company financing from creditors or investors. A higher ratio indicates more creditor financing (loans) than investor financing (shareholder). Although every industry has a different benchmark an optimal ratio is considered to be 1:1. The ratio for Belogtex is nothing to be concerned about as it is currently standing at a 1:024 ratio. Meaning that for every R1 financing from equity there is R0.24 financing from creditors.

- The **inventory turnover** calculation shows how many times a year the stock is sold and replaced during a year. Belotex had a very low turnover rate of only 2.57 times a year in 2018. This can be an indication of obsolete inventory that is taking up space and costing the company money. These stock items should be identified and could be sold at a reduced price. Fortunately, all the stock items of Belogtex are non-perishables and can be stored for long period without compromising the quality of the product. Belgotex operates in a trend right industry and can unfortunately not hold on to certain product styles for too long as when trends change, these stocks will become obsolete and be sold at a loss. The inventory turnover ratio benchmark for the industry for 2018 was 8.6 times. Belgotex is carrying too much inventory and this was imminent during our visit to the factory in Pietermaritzburg.

- The **average collection period** (figure 3.12) in terms of payments owed from accounts receivable is represented by the average collection period ratio. Over the past 6 years the average day for payments have moved from 59.95 (2013) to 91.94 (2018). In other word payments are received a whole month later then in the past. This can be an indication that the payments of customers are not monitored. Cash flow problems could be created because of this trend. This also indicates a lack in the managing of working capital. It seems as if the company is not that concerned about managing working capital firmly, judged by the increase in inventory and the outstanding debtors’ collection of R80 million.

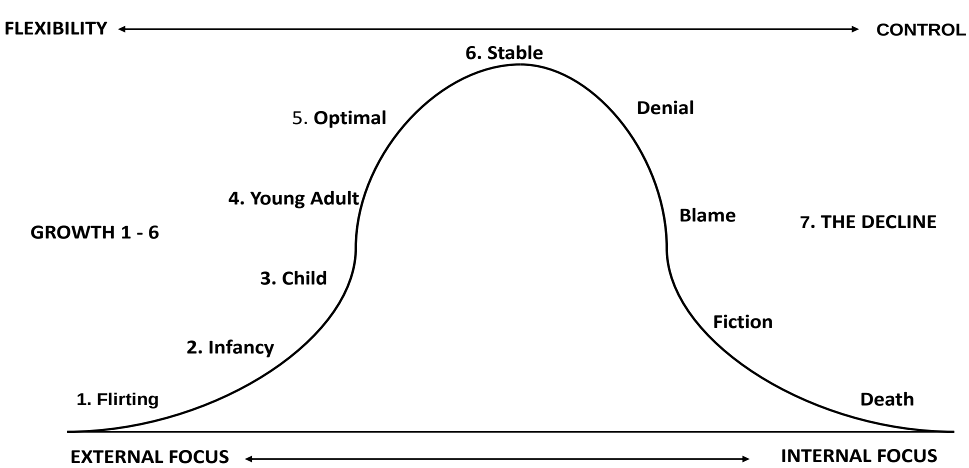
Figure 3. 12: Average collection period



3.12. The Life Cycle of Belgotex

As important as it is for business owners to have a clear understanding of the life cycle of their industry, is it also vital to understand what stage their own business is at in its own life cycle (Hazledine, 2018:24-25). Understanding both where the business is right now and where it needs to go, gives business owners an insight into the road ahead and allows them to act in the right way. Figure 3.13 shows the various stages of a business lifecycle as explained by Hazledine (2018:24-42). As businesses make their transition through the different stages, the balance between flexibility and control is constantly tested, as are the two forces of external and internal focus.

Figure 3. 13: The Corporate Lifecycle



Source: Hazledine (2015:25)

The first sign of ageing is not seen in a company's financial statements as they can still appear very healthy as seen and discussed above; it's seen in the attitudes and behaviours of the leaders. This case study concluded that Belgotex is in stable phase of the lifecycle; it looks healthy, but it is not moving up anymore. This is in fact a very dangerous position to be in as times are good, but there is a sense of complacency. People lose the urgency and drive that got the company to optimal. Sales are growing slower, there is less growth and it seems as if the entrepreneurial parts of the business marketing, sales and production are losing their power to a corporate culture that is emerging with corporate departments such as HR and legal taking over the power. The company is ruled by numbers and reports. These elements as mentioned by Hazledine (2018:39) was very eminent in the Belgotex case study.

If a business is Stable, then it's worth remembering that while you are patting yourself on the back, someone else is hungry and is working night and day to take your market share. Belgotex must get their hunger back and recognise that this is the start of the Decline – which is not where they want to head if they want to be around in the future.

3.13. Summary

The Belgotex story is one of entrepreneurship and growth over the past 36 years. The company introduced many firsts into the South African soft flooring market space and acted throughout the years a first mover and experienced many lows and highs. Product launches such as the polypropylene soft collection in 2004 and the Home launch in 2006 failed dismally. The acquisition of the largest wholesaler in the market, Pioneer, in 2006 added unwanted financial pressure on the company prior to the 2008 financial global melt down. The company recorded its first financial loss at the end of 2008. The sales lost through the acquisition of Pioneer was also never completely recovered.

The first CEO of Belgotex retired in 2010 and was succeeded by a new CEO who kept the status quo of his predecessor. He was succeeded by a very young and innovative CEO at the end of 2017, Ed Colle, who introduced many changes throughout the entire organisation within a 12-month time span and continuous to steer the company in a new and sustainable future direction. Belgotex always had an export division, but it was more an ad-on to the business and focus remained very local based. In recent years the company developed a focussed transnational export strategy with the vision of exports to be 50% of total business by 2025 without losing more local sales volume.

The flooring market has undergone a structural change in the past decade with ceramic tiles, vinyl and laminate flooring growing market share at the expense of carpeting. This can be contributed to the changes in lifestyle and the increasing preferences for tiles by the consumer. The question remains whether carpeting can continue to compete in the future flooring domain. Ceramic tiles and other hard flooring solutions has become formidable competitors with ceramic tile companies spending huge amounts of money on advertising and impressive distribution networks and showrooms.

Belgotex are therefore facing many strategic issues such as:

- Lifestyle changes of consumer preferences;
- Rising manufacturing and labour costs;
- An effective Business to consumer marketing plan;
- Increased manufacturing and human resource challenges;
- Increased exchange rate fluctuations;
- Speed to market and product innovation challenges;
- An influx of imported soft and hard floor products, especially for the commercial market;
- Pricing pressure, particularly on carpeting versus ceramic tiles and other hard flooring products such as laminates and rigid board vinyl products;
- Current soft flooring supply chain and distribution channels challenges;
- A declining residential market from a carpeting point of view and the increased popularity of vinyl flooring.

Chapter 4 – Strategic Implementation

4.1. Introduction

Organisational response to the environment and to the changes in the environment is the focus point of strategy (Woods & West, 2016:348). Strategy can be defined as the concern that an organisation's leaders have for the future and their goals on how to successfully get there. The focus is on the important question of how an organisation intends to compete with its available resources in an existing and perceived future environment (Huang, 2017:187). A desired strategy acts as a road map that needs to guide the organisation towards a goal orientated destination using its resources (Woods & West, 2016:348). Lazenby (2016:26) refers to a company's strategic road map as a Strategic Global Positioning System (SGPS). It is about strategic intent of what a company strives for in the future. A strategic plan stresses the means to an end namely the vision, whereas the strategic intend focus on the end result (Lazenby, 2016:27).

According to Ehlers and Lazenby (2007:10) Organizations function in a constantly changing environment and must adapt rapidly to change whilst focusing on their primary goals underpinned by their strategic objectives to stay competitive and to have a competitive advantage. Strategic Management is about being proactive in an ever-changing environment where proactive strategies can be formulated as a defence against changes in the internal and external environment (Ehlers & Lazenby, 2007:12).

Belgotex are in the carpet industry. An analysis was done with the focus on:

- Mission- and Vision statements and organizational values
- Technology and first mover advantage
- Strategic position
- Situational analysis: SWOT (Internal Strengths and weaknesses, opportunities and threats)
- Sustainability and the ability to create value over time
- Stakeholders analysis
- Competitive advantage
- VRIO framework

- Internal value chain analysis (Porter)
  - Primary activities: Supply Chain management
    Production and Operations
    Warehousing and Distribution
    Marketing and Sales
    After sales services
  - Support activities: Human Resources
    Technical support (Facebook and Instagram)
    Research and Development
    Finance

In the above analysis areas of improvement were identified and changes to strategy will be recommended to Belgotex on hand of a business model canvas. The business model canvas was developed by Alex Osterwalder and Yves Pigneur (Ungerer *et al*., 2016:251; Satell, 2017:72-86). The methodology is to create a business model indicating the value-creation and value-capturing aspects of Belgotex. Cognizance must be taken of the differences between strategy and a business model. Strategy is a concept on its own with a business focus on vision, mission, values and goal-setting. The environment, value creation, competition and competitive advantage forms part of strategy.

A business model focus on Customers, value creation, partnerships and any resources for business sustainability (Ungerer *et al*., 2016:251). The ideas combine to form a lean launchpad with three key concepts, customer development, minimum viable product and the pivot or central point (Satell, 2017:72). The business model canvas consists of nine building blocks. The right-hand side of the canvas deals with strategy formulation (what the business will do) and the delivery and extraction of value. The left-hand side deals with strategy execution (how the business will do it) and efficiency (cost reductions and optimization) (Ungerer *et al*., 2016:251).

The business model canvas for Belgotex (Table 4.1) was developed as a group effort as it requires hypothesis testing and inputs from all participants to become a sensible and effective tool. Idea mobility was encouraged, and participants could construct the canvas by working on a large surface with removable notes to encourage creative thinking (Ungerer *et al*., 2016:256). The tools facilitate better thinking with more strategic conversations to develop an effective business model (Satell, 2017:86). Business model innovation should be considered in the same light as other business functions like Operations, sales and marketing and finance (Satell, 2017:87).

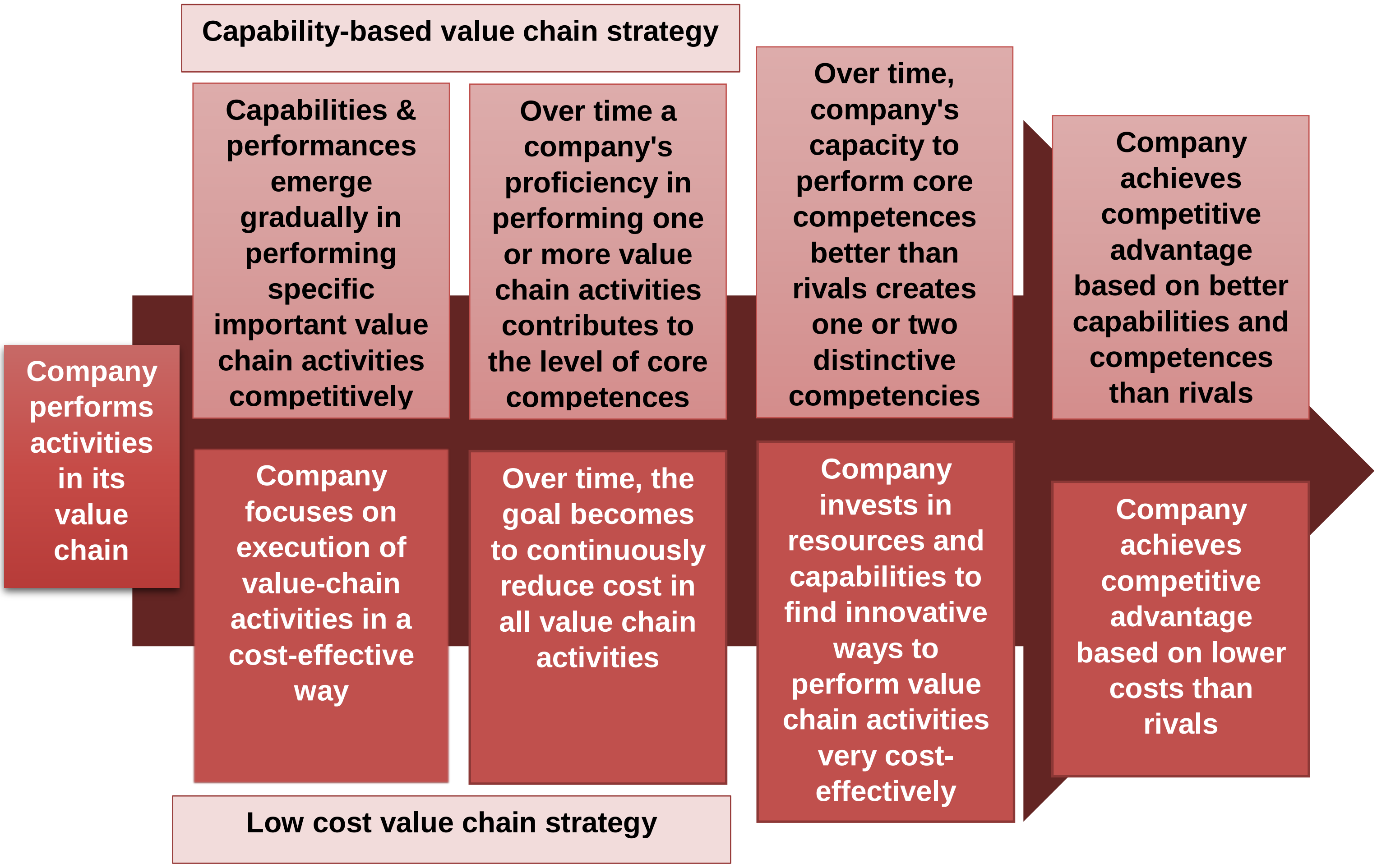
4.2. Belgotex - Past strategic implementation

The Belgotex story of success can mainly be defined as an effective internal growth strategy. Internal growth strategies focus on the existing products, services and markets of the organisation as well as obtaining new products services and markets (Lazenby, 2014:179). Innovation, investments in research and development and the ability to leverage technology, skills, competences and excellent service deliveries gave them the competitive advantage.

Internal growth strategies include market penetration, market development and product development strategies. Throughout its history, the company managed to develop and produce innovative and trend-right products. This was coupled with a very good distribution network of factory accounts operating in various market segments. Belgotex' strong presence in the wholesaler arena gave them to penetrate the indirect carpet market as well which led to strong growth from the 1990's into the new millennium.

The internal growth strategy was couple with a combination of a capability-based and low-cost value chain strategy (figure 4.1). The strategy was to acquire machinery and technology that would enable Belgotex to manufacture quality products at the best cost structures, better than industry rivals and in doing so achieve competitive advantage. This strategy has come under severe pressure in the past ten years as indicated in this study mainly due to the change of consumer buying behaviour moving away from carpet purchases to other flooring solutions such as LVT and cushion vinyl. The changes within the wholesaler supply chain which was a major source of revenue in the early history of Belgotex also had a major effect in declining carpet volumes. Belgotex has lost machine and cost efficiency capabilities as they had to rely on the import of new vinyl products instead of inhouse manufacturing resources and capabilities. New industry rivals like Azura, Traviata, Finfloor and WanabiWood have managed to offer vinyl flooring products at better cost structures and distribution methods to the market. Belgotex is therefor still the market leader from a carpeting point of view, but not from a vinyl flooring point of view. Although Belgotex were one of the first movers to import luxury vinyl tiles (LVT) they did not follow the same value chain strategy as with carpets. The strategy was more high-end niche market which gave the opposition traction in a price conscious South African market.

Figure 4. 1: Combination of capability-based and low-cost value chain strategy



Source: Ungerer *et al.* (2016:175)

4.3. Belgotex - Future strategic implementation

The South African carpet manufacturing market saw Belgotex grow in the past 36 years as the new entrant into a well-established market with strong industry rivals like Nouwens and the Romatex Group to the market leader. In recent years carpet volumes have declined and is it essential for Belgotex to re-imagine their master or grand strategy. The master strategy as explained by Lazenby (2014:176) provides the organisation with a road map to the future. It can also be described as the comprehensive general strategy that will guide the organisation’s actions in terms of profitability and value creation.

In the past, the main part of Belgotex’s growth strategy focussed on internal growth. With the flooring market shifting this study would like to propose that the company penetrate their growth strategy further to include an external growth strategy. External growth strategies include diversification and integration horizontally and vertically and within the same industry for the purpose of this case study (Lazenby, 2014:179).

Figure 4.2 depicts a corporate-level growth strategy as explained by Lazenby (2014:179) and includes a model designed by Chris Zook and explained by Evans (2013:283-285). Most growth strategies fail to deliver value because companies venture too far from their core (Evans. 2013:283). The suggested strategy must therefore be built from the Belgotex core. The timeless strategic precept, that of building power in a well-defined core, remains the key source of competitive advantage and the most viable platform for successful expansion (Evans, 2013:284). Zook (Evans, 2013:283) explains that successful companies operate in an F-E-R cycle (focus, expand, redefine, figure 4.2):

- Focus on, the understanding and reach of the full potential of the business’s core
- Expand into logical adjacent businesses surrounding that core
- Redefine pre-emptively the core business in response to market turbulence

In identifying the unique selling proposition (USP) of Belgotex one can define their core. A unique selling proposition is a summary of what makes a business unique and valuable to its target market (Gregory, 2009). A USP answers the question of how your business services benefit your clients better than industry rivals. The USP for Belgotex is as follows: *Belgotex designs, manufactures and delivers proudly South African quality floors that endure the speed of life.* If one breaks the USP down into small units, it offers a value proposition of flooring solutions to a consumer who is in the market for flooring solutions that are trend-right and of a good quality and will be able to deal with the challenges of life’s every day foot traffic.

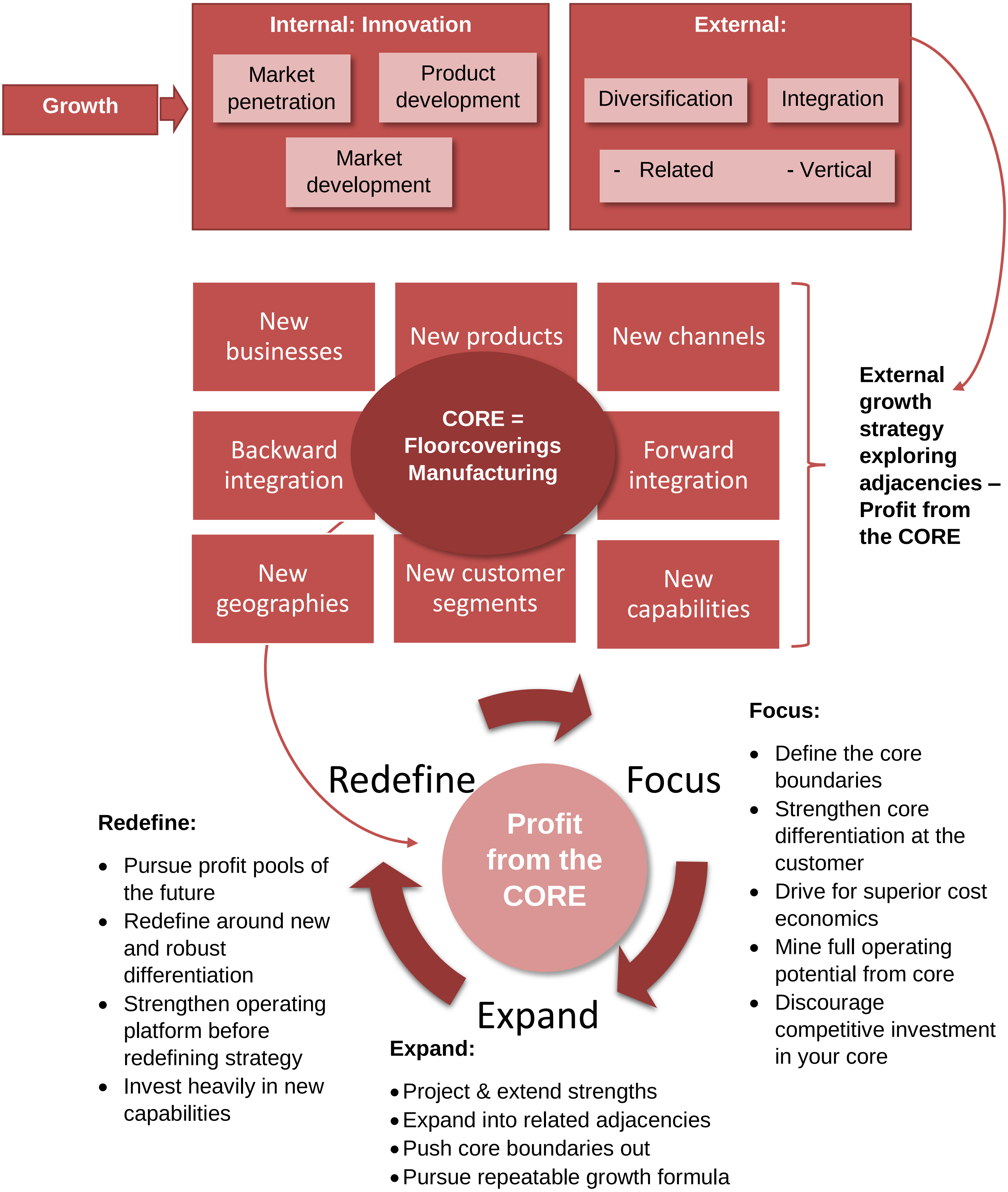
The Belgotex core is the design, manufacturing and delivering of quality flooring products. Out of this core Belgotex followed an intensive growth strategy by focussing on carpet manufacturing into existing flooring distribution channels. This was achieved through a concentrated growth strategy of manufacturing specific products for various market segments. The company for example manufactured dealer owned brands for the wholesalers and offering the wholesale trade an exclusive advantage into their distribution network. Cost effective needlepunch commercial products for the commercial market who was seeking durable low-cost products in large open spaces. Various residential and commercial tufted broadloom carpets featuring various colours and designs and following a best-cost provider strategy.

Belgotex secondly followed a market development strategy by expanding their product offering of existing products into non-traditional markets when they started producing artificial turf products for general outdoor and sports areas. The expansion offered completely new opportunities for the company to increase volumes and revenue. Lastly the company could advance product innovative and product development through new machine capabilities and produce products that industry rivals could not. Through their colourpoint technology they could also approach the hospitality industry who is constantly seeking for unique designs.

In recent years the company has experienced a slowdown in volumes though and is the general argument of this case study that the company should explore external growth opportunities. External growth strategies include related diversification and integration strategies. These strategies focus on expanding the organisation externally by adding new business units and/or products to the organisation’s current portfolio, for example (Lazenby, 2014:182).

The foundation of future profitable growth is therefore having a clear definition of the organisation’s core business, being a set of products, capabilities, customers, distribution channels and geographies that defines the essence of what the organisation is or aspires to be (Thompson *et al.,* 2017:300-301). With a clear core business, growth opportunities stem from a knowledge and understanding of market adjacencies. Adjacency expansion is a logical move into related segments that reinforce the strength of the business’s profitable core as shown in figure 4.2.

Figure 4. 2: Growth strategy model

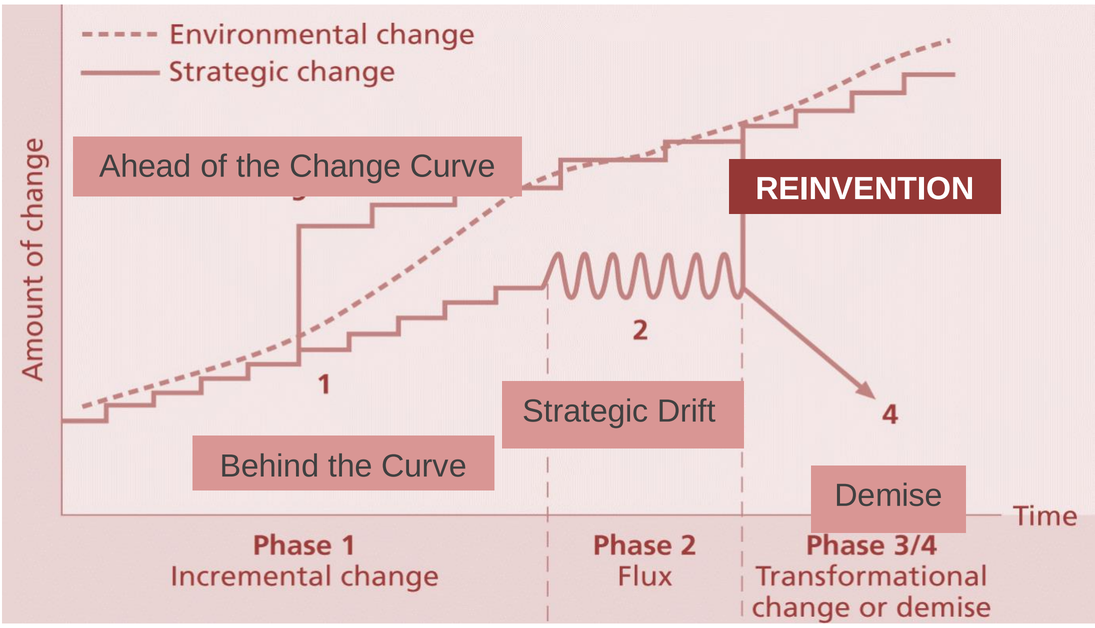


Source: Lazenby (2014:179); Evans (2013:284-285)

The Belgotex core has always been carpet manufacturing and investments were on the growth of carpet manufacturing and sales. As market trends have shifted and carpets mainly reduced to bedroom spaces in the residential environment, it has become increasingly important to look at alternative products that could compliment and strengthen the core. In the past ten years Belgotex did realise that the profit pool of the future will be in flooring products such as luxury vinyl tiles, cushion vinyl, laminates and artificial turf for example, but without a solid strategy built from the core.

A lack of focus on the external environment can lead to a strategic drift (Johnson *et al.,* 2011). A strategic drift as shown in figure 4.3 can be defined as a gradual deterioration of a company's competitive actions that results in the failure of the organisation to acknowledge and respond to changes in the business environment. Drift is a reflection of a static outlook, which over time becomes more distant from reality of shifting conditions in the economy, technology, and consumer demand (Johnson *et al.,* 2011). With Belgotex volume sales declining they find themselves behind the curve and in a possible strategic drift situation. The answer is reinvention and to champion innovation with an external growth strategy focus of evolving technology, consumption patterns, and industry competition.

Figure 4. 3: The risk of Strategic drift



Source: Johnson *et al.* (2007)

Embracing adjacency expansion can create opportunities for an organisation to reposition itself and to pursue the most attractive opportunities in a changed business environment (Thompson, 2017:301). The most common adjacencies that Belgotex should explore to profit from the core in future as explained by Thompson *et al.* (2017: 301) are:

- Interlocking customer and product adjacencies: expanding into new customer and product segments. This can be done by diversifying not only into dry back LVT products (glue down LVT) but also adding a rigid board (floating floor) and laminates to their portfolio. This will open up new customer opportunities as well as offer existing customers more products to choose from.
- Share-of-wallet adjacencies: capturing most of the purchases core customers, can increase loyalty and establish deeper customer relationships. Belgotex has an effective rebate and rewards system. A basket of products that addresses most of the current flooring trends make it easier to lock-in key customer’s purchase behaviour.
- Capability adjacencies: based on deep organisational know-how these can take the following forms – knowledge of import logistics, distribution, manufacturing and business and management processes

The researchers of this case study found that although the company has realised the fact that they need to expand into a robust hard flooring product differentiation strategy as a future profit pool, the strategy must be clearly defined, and expansion must be from the CORE into:

- New businesses
- Possible backward, hard flooring integration
- New geographies
- New products
- New customer segments
- New channels
- Forward Integration possibilities explored
- New capabilities

The Belgotex model since inception has been value chain activities, blocking out competitors by means of backward vertical integration and economies of scale. The researchers believe that if the company want to succeed into the future, an external growth strategy through diversification must be top of mind. As a market leader in soft flooring, it is important to realise the changing market conditions and revert to the core which is manufacturing of floorcoverings. The following are reasons for Belgotex to pursue an external diversification growth strategy (Lazenby, 2014:184-185):

- Decline in market opportunities and stagnating sales in its current core carpet business;
- Available opportunities to expand into industries with complementing technologies and products;
- The organisation can leverage core competences and capabilities and these resources can become key success factors in a new product line, or manufacturing plant;
- Diversification into related products or manufacturing could lead to cost reduction;
- A strong brand in the flooring manufacturing industry can be transferred into other businesses such as a forward integration strategy.

A forward integration strategy can be an opportunity to grow the business into the retail part of the industry and taking control of the whole process from manufacturing to the selling and final installation of the product. This must be a separate study and will not form part of this case study recommendations.

Belgotex knows and understands product design, development and production. That is their core. The company has diversified in recent years in the import of flooring related products that could assist in retrieving lost square meter sales with the decline of carpet sales. This strategy has worked to a certain extent, but not in full as small local importers of vinyl products have less overheads and distribution costs. They also focus on regional sales, such as Gauteng and Western Cape. Belgotex on the other hand focus on a national distribution network which leads to higher selling and distribution costs. The strategy for the future must be to strengthen the core and to focus on marketing and sales campaigns where carpets and new vinyl flooring trends are seen as complementors. This will mean a robust differentiating strategy of either acquiring machinery to produce LVT products locally or the acquisition of an offshore LVT factory.

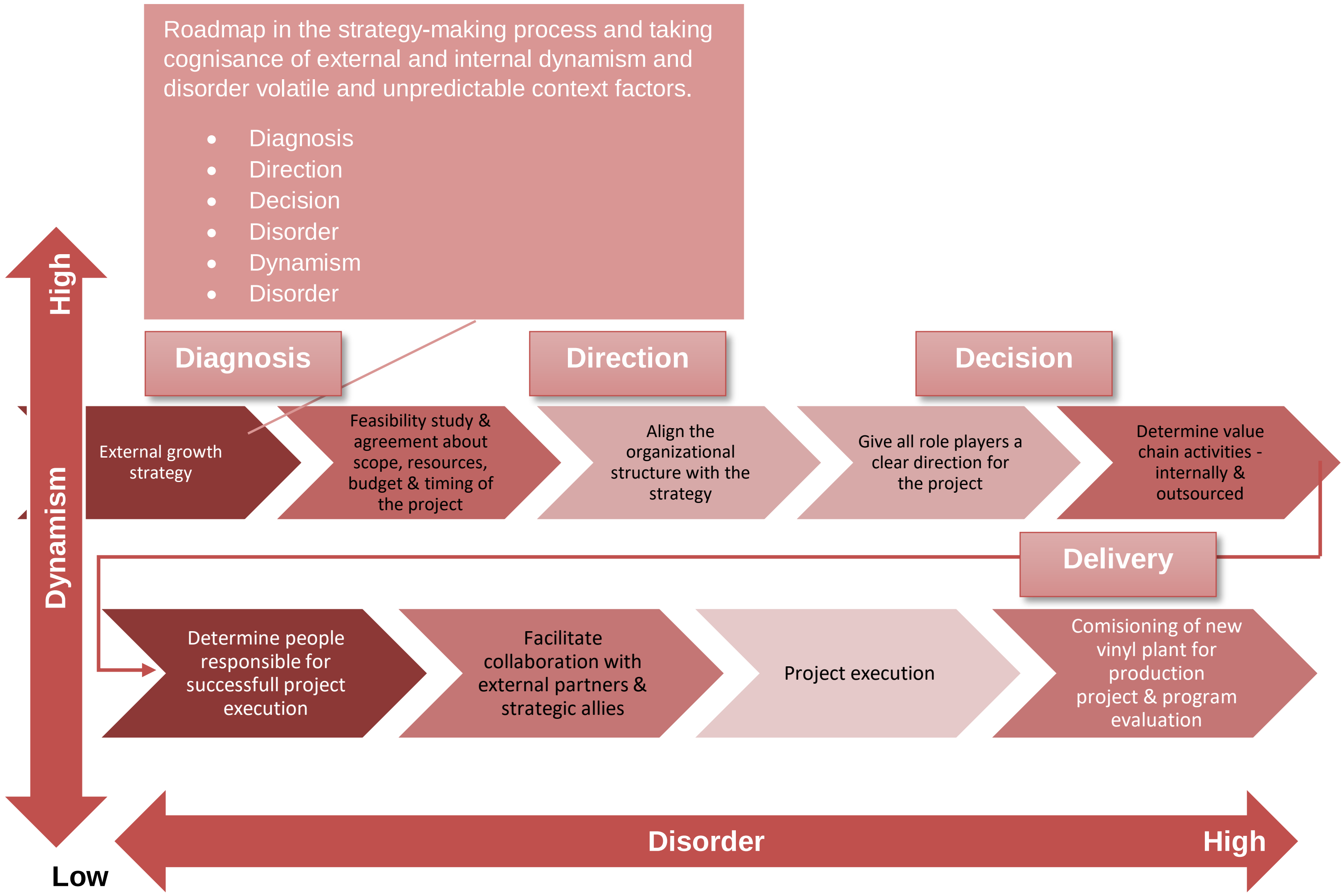
Past success should never account or guarantee future success. The Belgotex growth model has always been investment in machines and technology to produce locally. As pointed out market trends are changing, and the future will lie in the manufacturing of the new trends of vinyl flooring locally. The Belgotex vison of expanding into Africa will assist with volume sales and an increase in sales will drive down fixed production costs. If Belgotex want to stay true to their core the strategy must be differentiation into local production of vinyl products at cost effective prices. New vinyl trends are not only simulating wood floor designs but also cement and marble design trends. The latest PVC vinyl floor plank machine technology can produce both, saving investment costs.

The import of vinyl flooring levels the playing fields with industry rivals as they can all source product globally at the best possible prices and compete locally on a best cost and value chain strategy basis. Imports of finished goods also forces the manufacturer further away from their core. Local vinyl production will strengthen the core as well as push out core boundaries. This means, focus on strengthening the current carpet manufacturing core capabilities, expand into vinyl production capabilities and redefine a new and robust differentiation strategy that will ensure a new profit pool for the future (focus-expand-redefine, figure 4.2). The challenge however will be knowing when to strike a balance between immediate gain and fundamental long-term change. Building a roadmap and going through the phases of an execution life cycle is therefore critical for future strategic success.

Thompson *et al.* (2017:20) refers to six critical dimensions of the strategic management process. Four elements, namely diagnosis, direction, decisions and delivery are fundamental to the core strategy process and two namely dynamism and disorder set the context in which the process should be managed. Diagnosis refers to understanding the situation. In the diagnosis phase one need to consider strengths, weaknesses, opportunities and threats, identifying and understanding the problem and then start to think about an appropriate plan of action to address the problem. Thompson *et al*.

(2017:20) says that for a strategy to be successful the element of direction must be part of the process. The vision and mission together with goals and objectives form part of the direction. It is the path or road map one will take to achieve our final results. Making the right decision is a vital part of the strategic process. It is about choosing the correct option or approach. A successful strategy needs to be implemented, executed and eventually have outcomes or results (Thompson *et al,* 2017:21). As shown in figure 4.4 when all the steps have been followed, delivery needs to be against a set of goals and objectives that will lead through various inputs and outputs by all stakeholders to the necessary results. Dynamism refers to all incorporated. It is the interaction of different forces and a continuous change of activities. The more unstable and unpredictable the environment, the higher the dynamism, comparing to a more stable and predictable environment (Thompson *et al,* 2017:23).

Figure 4. 4: External growth strategy execution life cycle & 6 D's of strategic management



Source: Thompson *et al.* (2017:20,382,570)

A diversification strategy leads to the organisation growing through adding new business opportunities and markets to existing operations (Lazenby, 2014:183). Figure 4.4 shows the road map of a new LVT production plant adding to the core strength of Belgotex's carpet manufacturing capabilities.

4.3. Proposed business model

A business model is a representation of abstraction of the value-creation and value-capturing logic of the business. The business model flows out of the strategy. Strategy is more high level of positioning the business's competitive advantage against competitors. Business models are concerned in providing structure to strategy (Ungerer *et al.,* 2016:251). Structure follows strategy (David, 2001:245). The business model canvas designed by Alex Osterwalder and Yves Pigneur (Table 4.1) is concerned with customers, value creation, cooperation and partnerships, and the means by which the business sustains itself. They seem to depict the way that value is created and delivered to customers, and how revenue is generated (Ungerer, *et al.,* 2016:251). Annexure A shows the business model canvas principles applied to Belgotex.

The left-hand side deal with efficiency and the right-hand side with value creation or in other words left deals with the upper-stream efforts of the business and right deals with downstream profits.

The business model canvas consists of nine building blocks:

4.3.1. Key partners

Key partners are those associates essential for the realization of the business model. Partnerships can be established through strategic alliances between non-competitors, competitors, new business ventures and buyer-seller relationships (Ungerer *et al*., 2016:255; Satell, 2017:89).

The following advantages can be secured:

- The business model is optimized by sharing infrastructure, resources and activities that result in increased productivity, cost reductions and improved economies of scale. These resources and activities could be a challenge to perform or develop inhouse.

- Risk and uncertainty mitigation

The key partnership element must be defined by the type of partner relationship developed and the support it renders to the functioning of the business model, as well as the resources and activities that the partners perform in the key activities' element (Ungerer *et al*., 2016:255).

4.3.2. Key activities

Osterwalder and Pigneur differentiate between 3 classification of activities:

- **Production activities**

Design, development and delivery of products in considerable quantities and of superior quality

- **Problem solving activities**

Innovative and creative solutions and specialist skills to customer challenges.

- **Platform/Network activities**

Developing, maintaining and promoting the platform or network.

The above activities are essential to drive the business model (Ungerer *et al*., 2016:255). According to Satell (2017:89) activities like production, logistics, problem solving and maintaining platforms will have to be involved to effectively implement the business model.

4.3.3. Key resources

For the business model to function it requires physical assets, competencies, human resources, information, intellectual property, financial- and other resources (Ungerer *et al.*, 2016:254; Satell, 2017:89). These resources in valuable when they are scarce, non-tradeable, non-substitutable and difficult to copy. They can be intangible, physical, human or financial and can be leased, owned or acquired from partners.

- **Physical resources**

  Tangible assets such as equipment, land, buildings, vehicles, computers, machines, communication systems and distribution networks.
- **Intangible resources**

  Intellectual property rights, brand image and reputation
- **Human resources**

  People skills, competencies, knowledge
- **Financial resources**

  Cash, stocks, bonds, insurance policies

The key resources element must be defined by key resources responsible for the creation of the business competitive advantage, the most valuable assets and key resources for communication, creation and the selling and delivering of the value proposition (Ungerer *et al*., 2016:254).

4.3.4. Value proposition

A value proposition is the benefits that the organization provides to the customer and strives to solve customer problems or satisfy customer needs (Ungerer *et al*., 2016:252; Satell, 2017:89). It describes the products, services and other factors that create value for the customer and can include newness, performance, design, brand, price, risk reduction and convenience.

The value proposition element must be defined by products, services and the unique value (unique selling proposition) delivered to each customers segment, customer need that is satisfied and the customer problem that is solved (Ungerer *et al*., 2016:252).

4.3.5. Customer relationships

Organizations must form a bond with their customers to attract and retain customers, to ensure they have a conducive customer experience and to persuade them to spend more. 6 customer relationships are defined: Personal- and dedicated personal assistance, self-service, automated service, advisory service, communities and co-creation (Ungerer *et al*., 2016:252; Satell, 2017:89).

The customer relationship element must be defined by recognizing the types of relationship in each customer segment, that different customers requires different types of relationships, the ways in which relationships differ and how relationships can be optimized for efficiency and experience (Ungerer *et al*., 2016:252).

4.3.6. Channels

Channels are the way business interact, reach and connect with customers and make offerings accessible to them. Ways to interact with customers include retail outlets, websites and distribution partners (Ungerer *et al*., 2016:253; Satell, 2017:89). Customers go through 6 generic channel phases during interactions with business: Awareness, evaluation, purchase, delivery, use and after sales support. These generic phases must reflect the business's unique value chain.

The following must be defined in the channel element: unique customer channel phase value chain specific to the business, offering channels, channels for evaluation of the offering, channel through which offerings are sold and delivered to customers, channels for after sale service and the most cost-efficient channels (Ungerer *et al*., 2016:253).

4.3.7. Customer segments

Different groups of people/organizations represent the customer segments to which business sell it products or services to and are the customer that the organization believe will be interested in paying for the product or service offering and can be in the mass market or the niche market (Ungerer *et al*., 2016:252; Satell, 2017:89).

Customer groups represent separate segments if there needs requires distinct offerings, they can be reached through different channels, they require different relationships, they have substantially different profitability's and they are willing to pay for different aspects of the offer.

A customer persona can be constructed using demographic, geographic, psychological and behavioural attributes. The specific customer attributes for conducting this segmentation are business- and industry-dependant. Customer segment classification includes mass market model, segmented model, niche market model, a multisided platform model and a diversified model.

The following must be defined in the customer segment element: Customer segment classification of the business, individual segments to create value, both segments of a multi-sided platform, valued customers and characteristic that describe the segments (Ungerer *et al*., 2016:252).

4.3.8. Cost structure

The cost structure is an accumulation of cost the organization will incur from acquiring and maintaining key resource, operating key activities and key partnerships (Satell, 2017:89).

Two broad cost structure classes are identified:

- **Cost-driven models**

The focus is on cost minimization. Lean cost structures are created to enable low-price value proposition to customers. Automation and outsourcing are the cheap options.

- **Value driven models**

This model is less concerned with cost implications and focus on creating value for customers and has a high degree of personalized service and high-quality features and functionalities.

The following must be defined in the cost structure element: the type of cost structure, fixed- and variable cost, economies of scope and scale and cost that need to be monitored closely (Ungerer *et al*., 2016:256).

4.3.9. Revenue streams and pricing strategies

Revenue streams are the different ways the organization will capture value (Satell, 2017:89). Business have different revenue streams and can relate to each customer segment, product or service type. Pricing strategies and the generation of income are related by the way that offerings are priced depending on market demand and customer segments (Ungerer *et al*., 2016:253).

Fixed pricing mechanism include list prices, prices dependent on the value proposition features, prices depends on the customer segment and price is a function of the quantity purchased.

Dynamic pricing mechanism includes price negotiated between buyer and seller, price depended on inventory on hand and time of purchase, price determined by supply and demand and price determined by the outcome of competitive bidding.

The following must be defined in the revenue streams element: Revenue stream- and profit margin type used for each offering or customer segment, contribution of each revenue stream to the overall revenues, actual price of offerings, break-even time frame. (Ungerer *et al*., 2016:253, 254).

4.3.10. Summary

The commitment to strategic management can be better understood by examining “how” and “why” people are engaging in better or less desirable practices. Commitment refers to looking at employee’s tasks and actions as well as their ability to take responsibility and dedication in achieving organisational targets. Strategic management is the relationship between employer and employee, with the intention to continue to improve and putting in the effort to achieve organisational goals. Commitment leads to engagement, to change and finally to strategic intent and is critical to the delivery of a winning business strategy (Klein *et al.,* 2012). Gaining competitive advantage generally comes from the ability to meet the customer needs more effectively, with products or services that customers value more highly, or more efficiently, at a lower cost (Thompson *et al.,* 2017:8).

Seeing all employees as stake holders in the strategic implementation process is a crucial activity. By encouraging staff to participate and collaborate in the entire strategic process, trust and loyalty is build and a recipe for success is being created. Management should involve all employees in the strategic process to reduce the risk of failure substantially.

Ongoing evaluation and reflection of performance of the strategic initiatives needs to be implemented. Evaluation enables an organisation to reflect internally and is part of an ongoing life cycle of process development, implementation and evaluation. A root cause analysis is easy to complete without statistical analysis and help to identify the primary corrective action to be taken when strategic initiatives are potentially failing, or to be improved. A primary reason for failure is that decision makers do not understand the relevance or are unable to measure progress. By repeatedly asking the question “Why”, Belgotex can peel away the layers of symptoms which can lead to the root cause of a problem. There is theoretically no golden rule to what the response time after acknowledging the failure of a strategic initiative should be, it can be recommended though, that Belgotex should respond rather sooner than later to a problem when realised and acknowledged, but it remains their choice whether to act on recommendations or not.

It is important that Belgotex apply the following three tests to determine whether a strategy has the potential to be a winning strategy:

- The Fit test – Belgotex must determine if the suggested strategy does fit the organisations current situation and be able to match industry and competitive conditions.
- The competitive advantage test – Can the strategy help Belgotex to achieve a sustainable competitive advantage for the foreseeable future.
- The performance test – Will the strategy be able to produce good organisational performance from a finance, sales and customer satisfaction point of view.

It is clear that the soft flooring industry is changing as consumer buying behaviour has changed. New entrants have entered the market offering new trend-right vinyl flooring solutions which leaves Belgotex with the burning issue of embracing new vinyl technology and machinery if they want to stay true to their manufacturing core.

Branding remains a topic for discussion as indicated. The change of the brand image might not have been the correct strategy for Belgotex at this stage as reports indicated that consumers are not that familiar with the stand-alone brand name, without flooring being used in the name branding. The old B-logo also seemed to be more authentic than the new version.

KEY PARTNERS

Key Partners who will create, deliver and capture value for Belgotex

- **Key factory account partners:**
  Top Carpets
  Carpet & Décor
  Builders Warehouse
  John Dore Flooring
  Kevin Bates
  Turner Pearson
  Combined Flooring
  Lay-rite
  Floors-up
  Millennium Flooring, etc.
  Wholesalers: Likewise, Carpet Brokers, Wonder Flooring (Wholesalers, Independent Contractors
  Chain Groups & Buying Groups)

- Key Suppliers
  Beaufloor, Beaulieu Nylon SASOL, Jenka, Parsons, Afri-knife, Gerflor etc.

- Social responsibility stakeholders
- Green building council South Africa
- South African wood and laminate association
- SETA
- Architects
- Designers
- Decorators
- Building contractors

- **International network of suppliers, factories, customers and suppliers on all continents**

KEY ACTIVITIES

Key activities needed to successfully execute and engage the business model

Key Activities by Belgotex:

- Design, make and distribute high-quality broadloom and modular carpets for the residential and commercial market segments with custom solutions available to the commercial market
- Speed to market through daily deliveries to factory account holders
- Online and off-line offering
- Offline customer service and engagement through key partners and stake holders
- Revenue streams: through existing distribution channel

Other activities:

- Fitting skills development and training
- Product knowledge training
- Factory tours with customers and architects, designers, decorators

KEY RESOURCES

The resources needed to gain access to resources

- **Types of resources:**
  - Physical 100 000/m2 innovative manufacturing plant
  - 35 000/m2 warehouse facility
  - Cape Town based distribution centre
  - Up to date machines and equipment to stay in touch with modern sustainable carpet manufacturing processes
  - Brand patents, copyrights, data and uniquely design products like Grafika for the South African market
  - Human Capital through experienced factory staff, & national sales force
  - Research and development department
  - Financial backup from shareholders
  - National factory owned showrooms
  - IT, marketing and Transporter company

VALUE PROPOSITION

Benefits that the Business model will deliver to customers

- Soft flooring (carpets, loose carpet and rug solutions, imported luxury vinyl tiles and cushion vinyl flooring and artifitual grass solutions
- Affordable and stylish flooring solutions
- Products for the residential, commercial and sports market segments
- Products from low- to high-end
- The need to décor the home with stylish carpets and to cover cold hard floors with soft floor solutions
- Offer vinyl solutions to consumers seeking alternative products to carpets

Characteristics:

- World-class African Brand
- Vertical integration (backward)
- Performance and quality
- Customization
- Trend-right design
- Product innovation
- Brand/Status
- Price/Cost Reduction
- Accessibility
- Convenience/Usability
- Continuous Innovation
- Ecologically sustainable manufacturing methods

Values:

- **Better together**
- **Curiosity**
- **Courage**
- **Deep Focus**
- **Tread Softly**

CUSTOMER RELATIONSHIP

Relationships that Belgotex have with their customers

- Customer Segments expect Belgotex to establish relationships with their customer segments and maintain it with them. This is done mainly through a dedicated sales team who calls on all factory account holders as well as a market services division based at the factory for responsible for the receiving and processing of all factory account holder orders.
- Well establish direct supply chain experience.
- Brand loyalty and customer support through a powerful rebate and reward system as sales and marketing support
- *Dedicated personal rep's assistance*
- Sampling and point of sales support
- Advertising and Marketing
- Product launch functions and product training
- Installation support and training of fitters
- Customer Promotions

DISTRIBUTION CHANNELS

The way Belgotex interact with their customers

- Through direct retail distribution channel, National & International:
- Daily deliveries to the local customer base:
  - Wholesalers – Indirect retail trade
  - Chain stores – Builders Warehouse
  - Buying Groups – Top Carpets, Carpet & Décor
  - Independent retailers
  - Independent contractors

- Web presence and Integration
- Specifying Dynamics and Autospec
- Marketing through social media platforms – Facebook & Instagram
- Belgotex showrooms in Johannesburg, Durban, Pietermaritzburg, Cape Town

CUSTOMER SEGMENTS

Belgotex Market Segments

- For whom are they creating value? Mainly generation baby boomers, generations X and Y in the national environment through an extensive A & B-stream supply chain.
- Strong International customer base

4 segments have been identified:

- **Residential (factory accounts)**
  - **Buying groups retailers**
  - **Chain stores**
  - **Independent retailers**

- **Professional fraternity**
  - **Architects, designers & specifiers**

- **Commercial (factory accounts)**
  - **Commercial Contractors**

- **Wholesalers (Indirect trade)**

- **International customer base – mainly retailers and distributors**

MAIN FOCUS ON THE FOLLOWING DIFFERENT TYPES OF CUSTOMER SEGMENTS:

- Multi segment
- Customised marketing
- Diversified
- Multi-sided Platform

COST

Costs incur to get key partners, resources, activities and relationships

- **The business is more:**
  - Cost Driven (leanest cost structure, best price value proposition, maximum automation, extensive outsourcing), rebate and reward system, Value Driven, high fixed costs, through wages and assets
  - Vertical integrated manufacturing process to produce at best cost-effective levels

REVENUE STREAMS

Capture R-Value

Fixed pricing

- List Price – selling to flooring retailers, commercial contractors, wholesalers & wholesale customers, chain stores
- Product feature & differentiation dependent
- Customer segment dependent

Table 4. 1: Belgotex business model canvas

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APPENDIXES

Appendix for company project presentation:


AGENDA
PHASE ONE:
• Company overview
• Internal structure
• Supply structure
• Vision, mission, values
• Historical overview road map
• First mover capabilities / Achievements
PHASE TWO
• Environmental analysis
• SWOT analysis
• Industry rivalry analysis
• The flooring industry in numbers
• Financial analysis
• Branding / Marketing / Procurement
• Current strategy
• Current business model and analysis thereof
PHASE THREE
• Development of new winning strategy
• Summary
• Conclusion
B_
BETTER TOGETHER

PHASE ONE

COMPANY OVERVIEW

A PIONEERING SPIRIT AND ENTREPRENEURIAL BOLDNESS IS AT THE HEART OF BELGOTEX FLOORS.

FROM HUMBLE BEGINNINGS AS NATAL NYLON INDUSTRIES IN 1983 TO A MEMBER OF THE MULTINATIONAL BELGOTEX INTERNATIONAL GROUP WITH 8 COMPANIES OVER 4 CONTINENTS, BELGOTEX FLOORS HAS DEVELOPED A REPUTATION FOR INNOVATION.

SPEARHEADED BY FOUNDER CHAIRMAN STEPHAN COLLE,BELGOTEX HAS DEVELOPED INTO THE LEADING SOFT FLOORING MANUFACTURER IN AFRICA.

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Based in Pietermaritzburg
South Africa

EST. 1983

621

R1,4 billion

6.5 million m²

20% export

70% commercial
30% residential

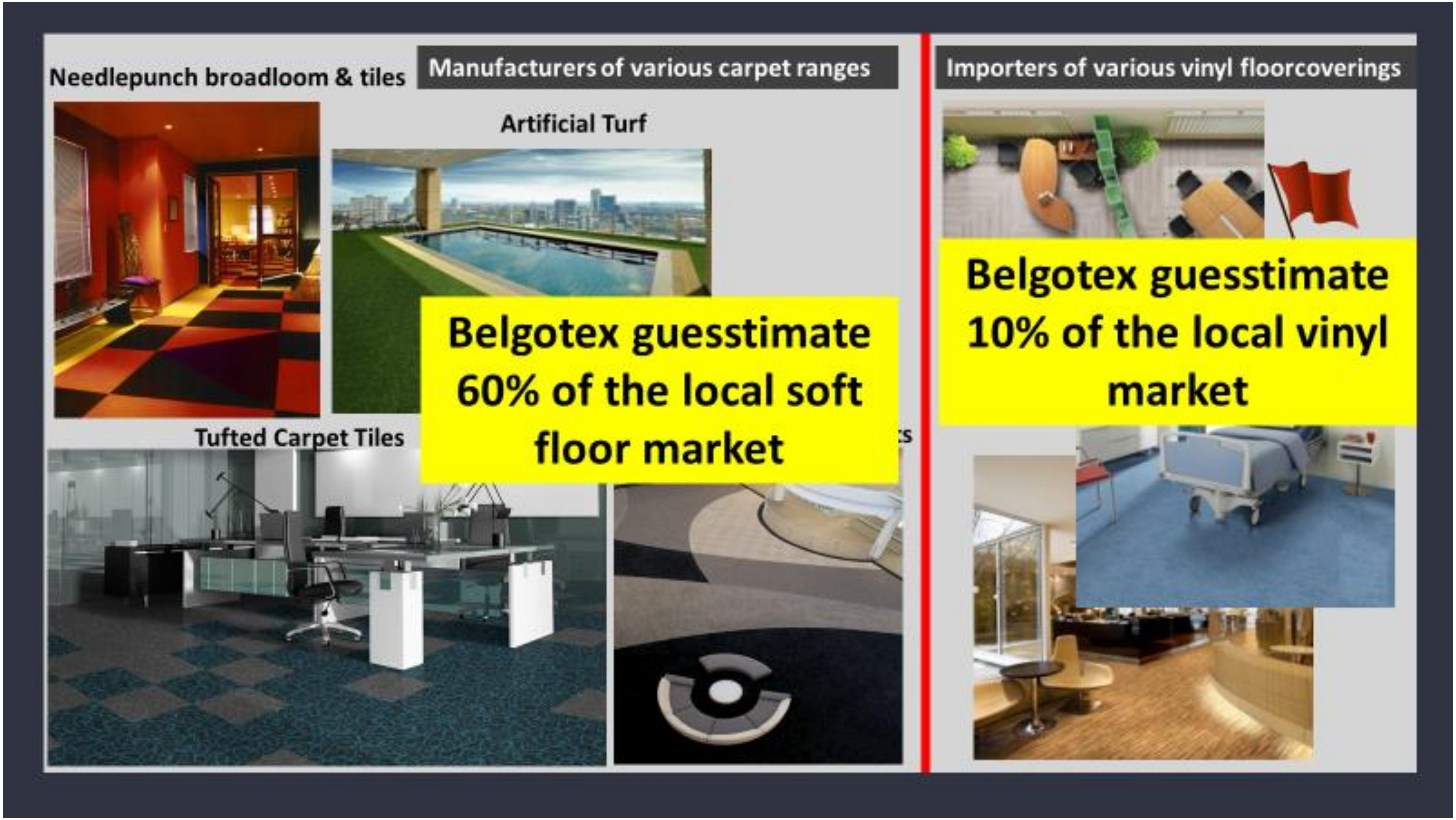
CORE BUSINESS

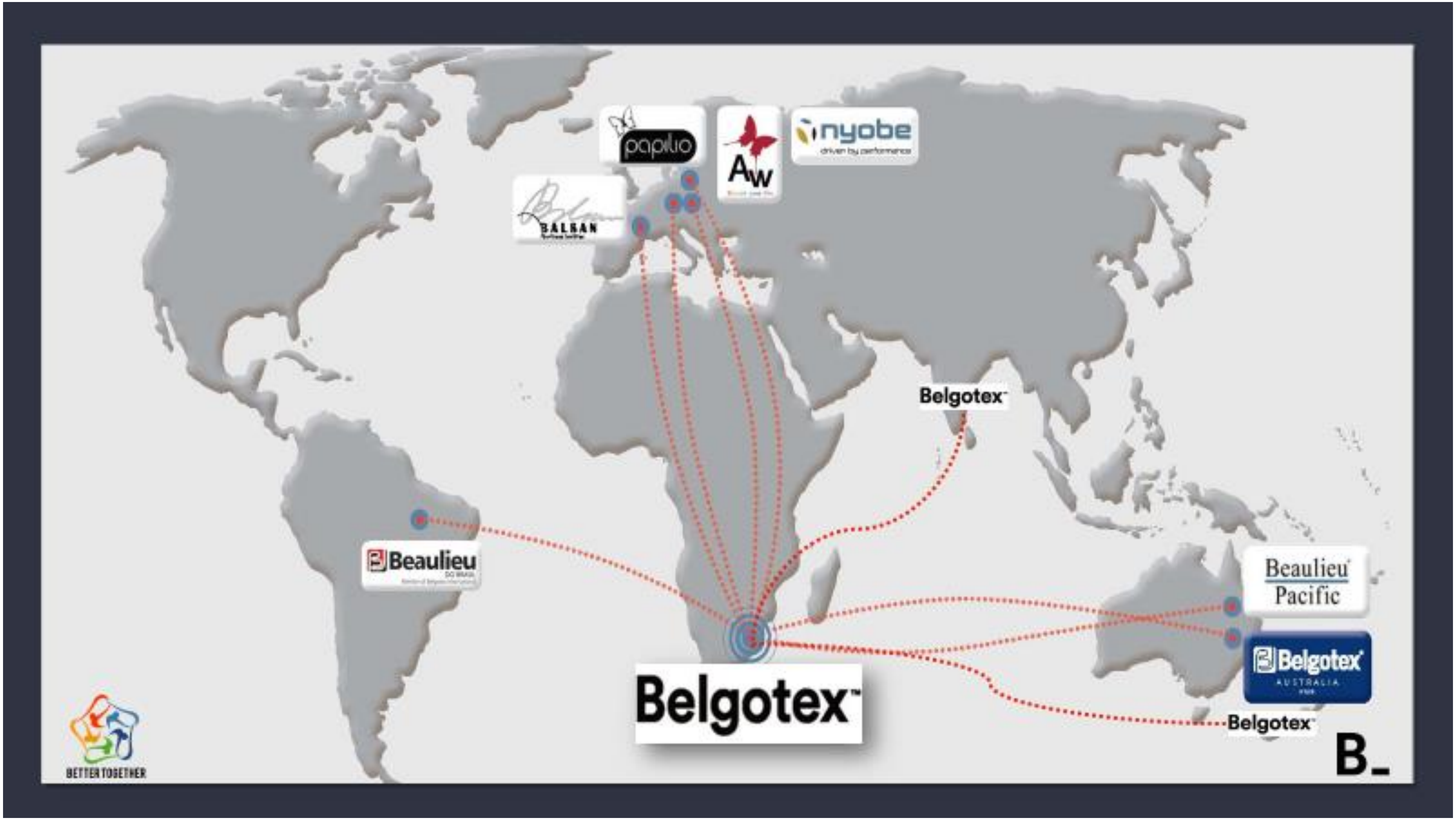
Tufted & Needlepunch broadloom carpets
Tufted & Needlepunch carpet tiles
Polyamide & Polypropylene yarns
Polypropylene staple fibres
Artificial grass

Distributors

Cushion Vinyl
Homogenous Vinyl
LVT
Rubber flooring

Belgotex™


Needlepunch broadloom & tiles
Manufacturers of various carpet ranges
Artificial Turf
Tufted Carpet Tiles
Belgotex guesstimate 60% of the local soft floor market
Importers of various vinyl floorcoverings
Belgotex guesstimate 10% of the local vinyl market


papilio
Aw
nyobe
driven by performance
BALKAN
Belgotex
Beaulieu
Beaulieu
Pacific
Belgotex
AUSTRALIA
Belgotex
Belgotex
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BELGOTEX DNA = INNOVATION THROUGH TECHNOLOGY
• Belgotex is the industry leader
• They have competitive advantage over local industry rivals
• Innovation is part of the Belgotex DNA
• They follow a first mover approach which made them an industry leader
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Belgotex
• Differentiation capabilities give them a competitive advantage
• During our assessment of Belgotex it was clear that Belgotex through the years followed an internal growth strategy focussing on their core business which is manufacturing
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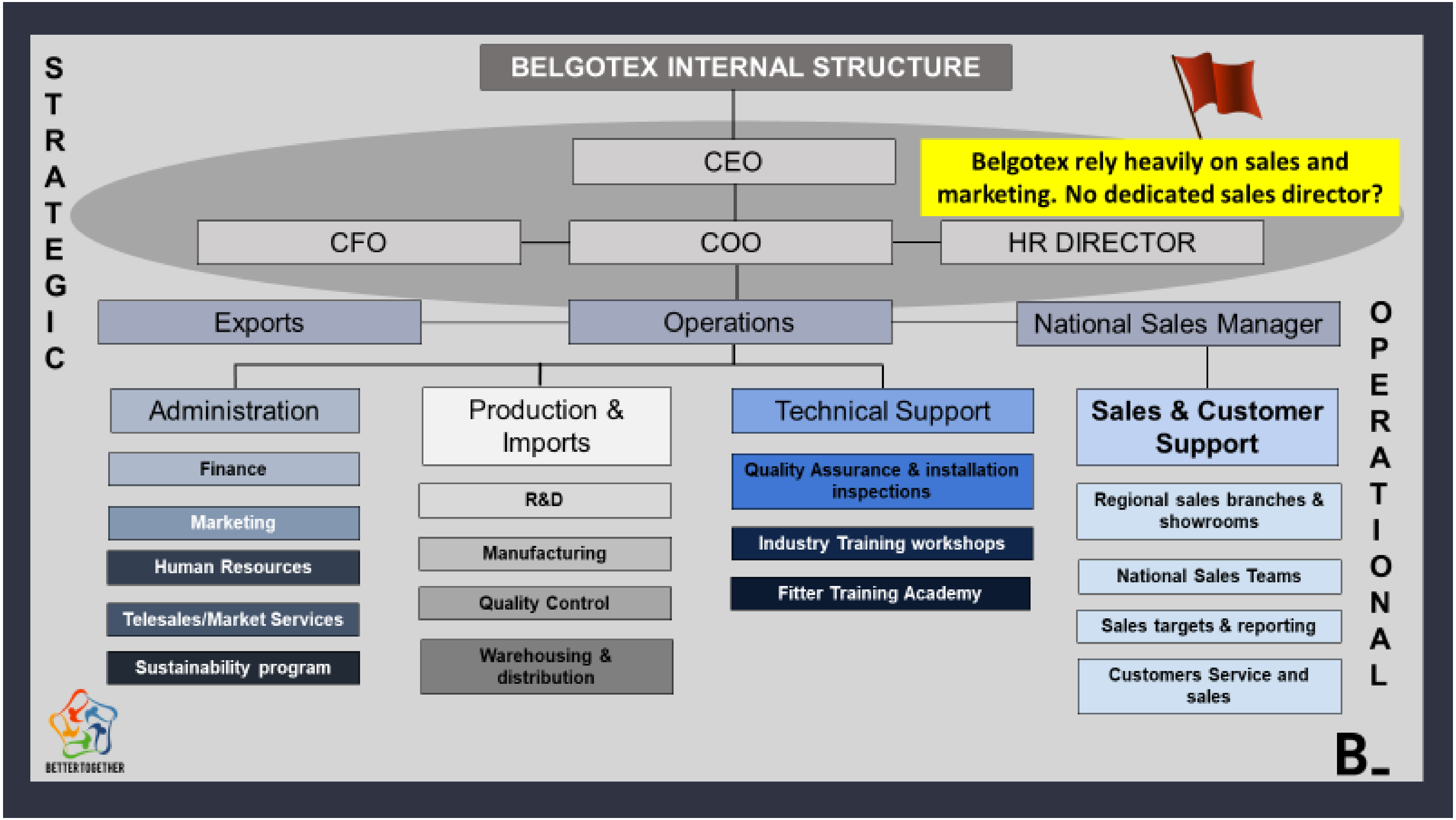
BELGOTEX INTERNAL STRUCTURE
STRATEGIC
CEO
Belgotex rely heavily on sales and marketing. No dedicated sales director?
CFO
COO
HR DIRECTOR
Exports
Operations
National Sales Manager
OPERATIONAL
Administration
Finance
Marketing
Human Resources
Telesales/Market Services
Sustainability program
Production & Imports
R&D
Manufacturing
Quality Control
Warehousing & distribution
Technical Support
Quality Assurance & installation inspections
Industry Training workshops
Fitter Training Academy
Sales & Customer Support
Regional sales branches & showrooms
National Sales Teams
Sales targets & reporting
Customers Service and sales
BETTER TOGETHER
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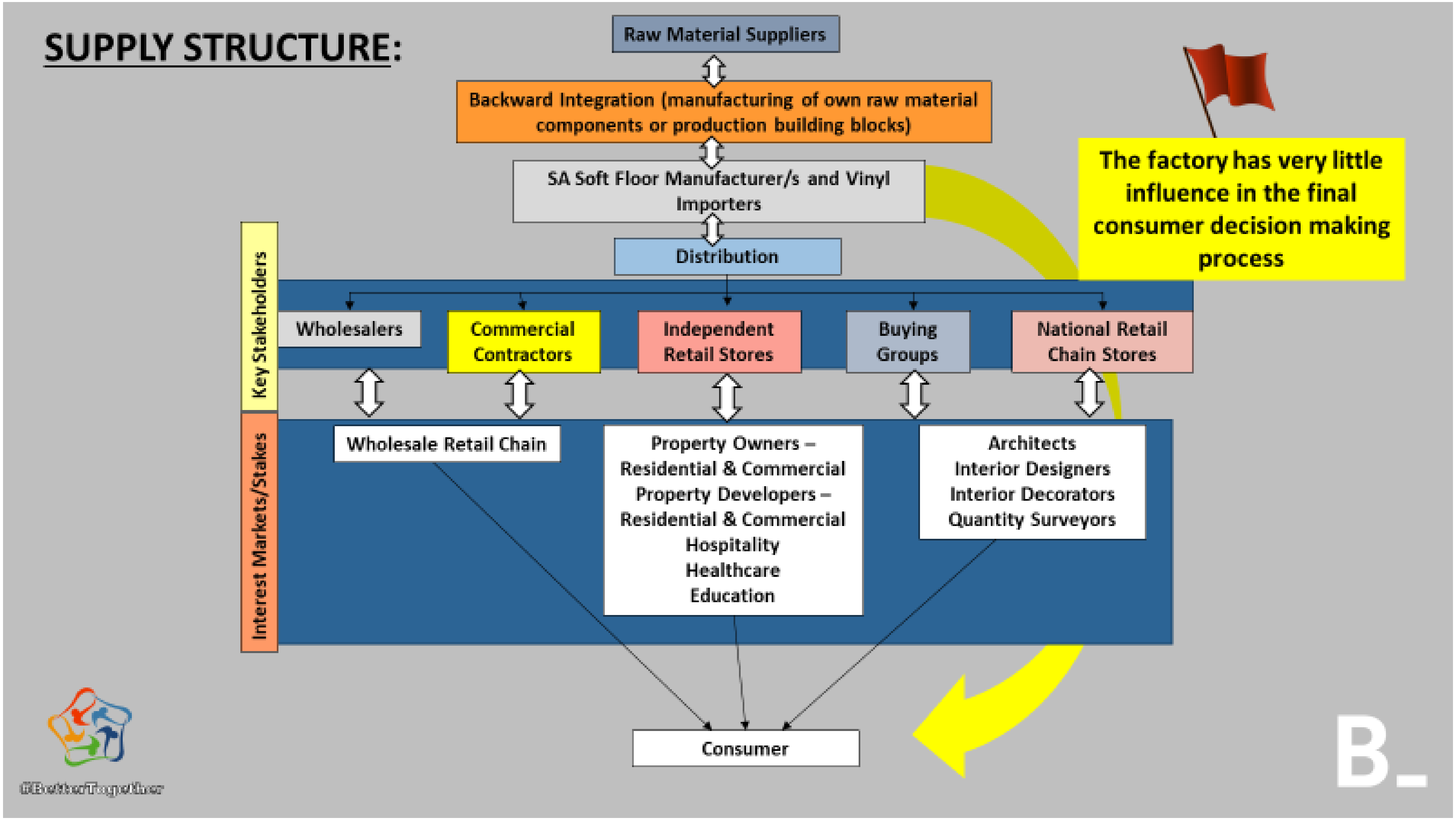
SUPPLY STRUCTURE:
Raw Material Suppliers
Backward Integration (manufacturing of own raw material components or production building blocks)
SA Soft Floor Manufacturer/s and Vinyl Importers
Distribution
Key Stakeholders
Wholesalers
Commercial Contractors
Independent Retail Stores
Buying Groups
National Retail Chain Stores
Interest Markets/Stakes
Wholesale Retail Chain
Property Owners – Residential & Commercial
Property Developers – Residential & Commercial
Hospitality
Healthcare
Education
Architects
Interior Designers
Interior Decorators
Quantity Surveyors
Consumer
The factory has very little influence in the final consumer decision making process
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Vision

"To be recognised, world class, African brand showcase through our deep connection with our people, product and planet"

Mission

"Belgotex designs, manufactures and delivers quality floors that endure the speed of life"

Core Values

Better Together

Belgotex naturally embrace teamwork

Tread Softly

Belgotex strive towards sustainable practices

Curiosity

Belgotex has the desire to explore & achieve the unimaginable

Courage

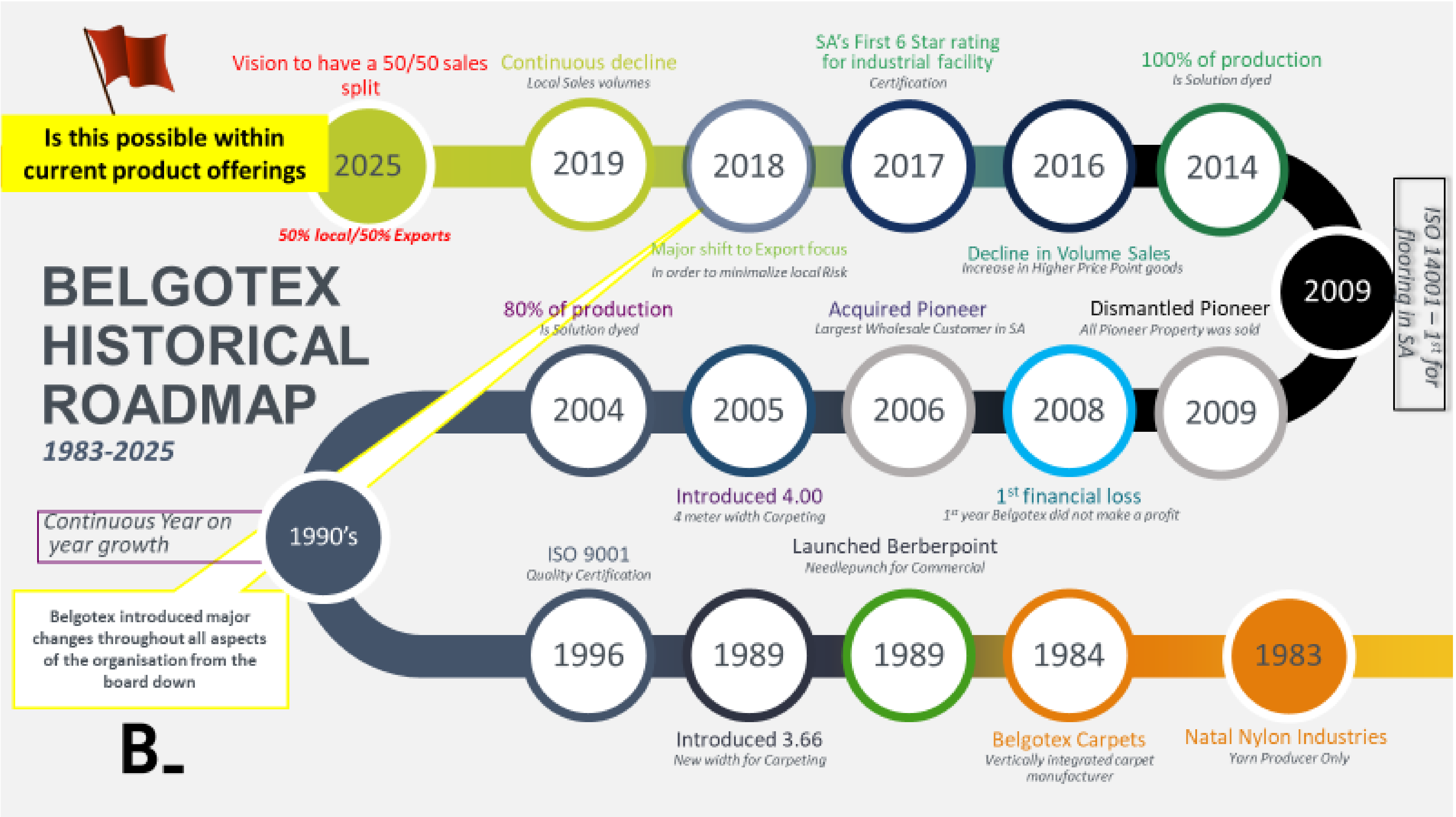
Belgotex is not afraid to experiment without the fear of failure

Deep Focus

Belgotex believes they can be a driver of change

BETTER TOGETHER

B_


Vision to have a 50/50 sales split
Is this possible within current product offerings
2025
50% local/50% Exports
Continuous decline
Local Sales volumes
2019
2018
Major shift to Export focus
In order to minimalize local Risk
SA's First 6 Star rating for industrial facility
Certification
2017
2016
Decline in Volume Sales
Increase in Higher Price Point goods
100% of production
Is Solution dyed
2014
2009
ISO 14001 – 1st for flooring in SA
BELGOTEX HISTORICAL ROADMAP
1983-2025
80% of production
Is Solution dyed
2004
2005
Introduced 4.00
4 meter width Carpeting
Acquired Pioneer
Largest Wholesale Customer in SA
2006
2008
1st financial loss
1st year Belgotex did not make a profit
Dismantled Pioneer
All Pioneer Property was sold
2009
Continuous Year on year growth
1990's
Belgotex introduced major changes throughout all aspects of the organisation from the board down
ISO 9001
Quality Certification
1996
1989
Introduced 3.66
New width for Carpeting
Launched Berberpoint
Needlepunch for Commercial
1989
1984
Belgotex Carpets
Vertically integrated carpet manufacturer
1983
Natal Nylon Industries
Yarn Producer Only
B_

FIRST MOVER CAPABILITY / ACHIEVEMENTS

- First to introduce the advanced *MiracleBac* backing for tufted products and *NexBac* for needlepunch & tufted tiles
- Created *BerberPoint* the first structured needlepunch range in South Africa
- First for *Stainproof Miracle Fibre™*
- First to produce a cost-effective carpet, *Matador*
- First to locally manufacture artificial lawn, *DuraTurf*
- The first South African flooring company to gain the coveted ISO 14001 environmental certification
- First to launch a *Green underlay* made from 100% recycled fibres

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FIRST MOVER CAPABILITY / ACHIEVEMENTS

- With the launch of the *Lifestyle Collection,* Belgotex were the first local manufacturer to link a carpet range with mobile technology
- The first local manufacturer to charge for samples
- Another significant first for Belgotex and the South African carpet industry was the introduction of a new carpet width – From 2.75 to 3.66 to 4.00 today
- First to conduct a carbon footprint analysis as part of their sustainability strategy and to install a roof-mounted solar power system
- First to create an academy that could provide essential fitting skills to the flooring trade
- First to introduce the sophisticated pattern tufting technology of Tuftweave , allowing designers the flexibility to create luxurious axminster-type carpets from any design or pattern, previously only achievable by weaving

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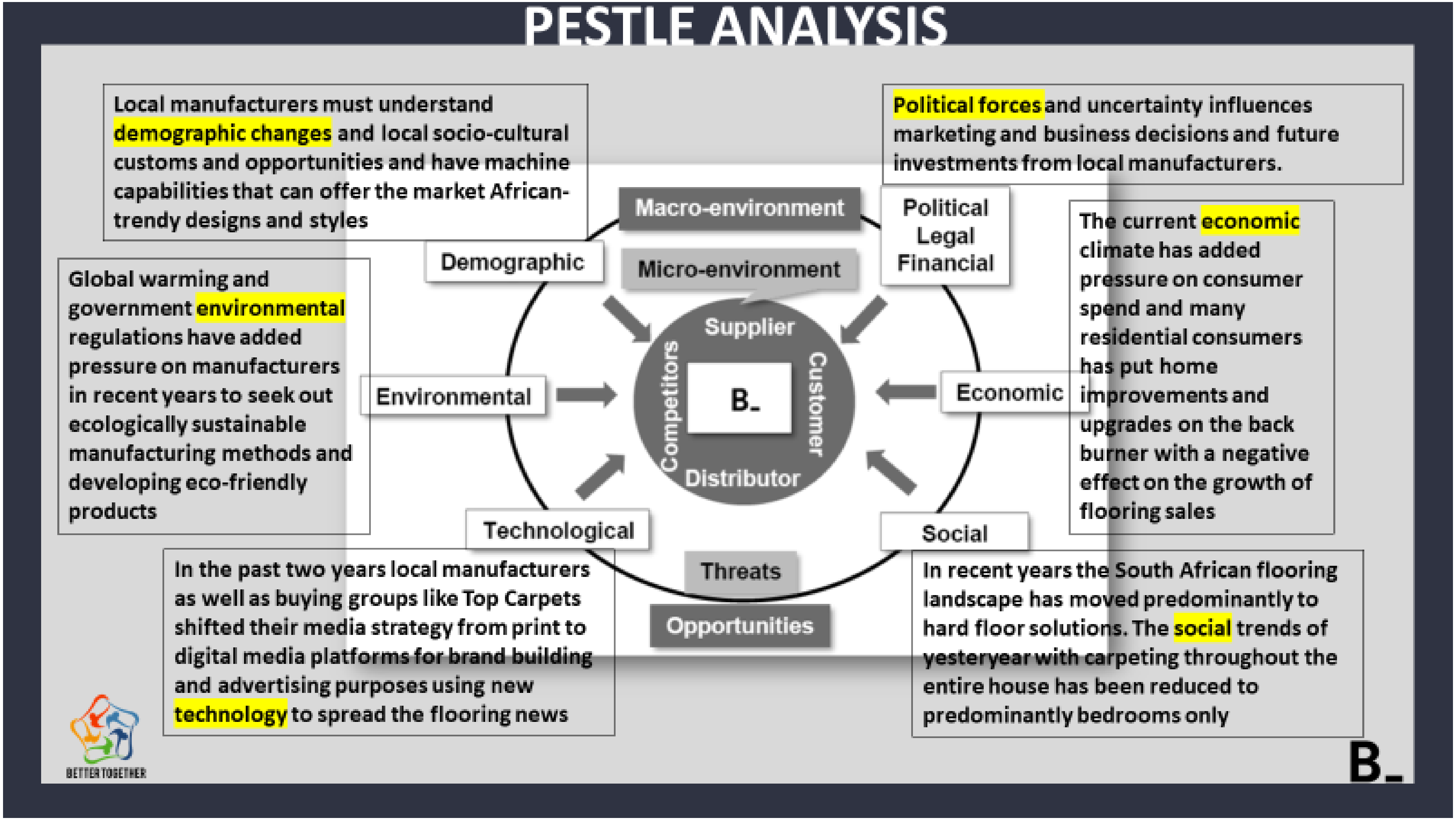
PHASE TWO


PESTLE ANALYSIS
Local manufacturers must understand demographic changes and local socio-cultural customs and opportunities and have machine capabilities that can offer the market African-trendy designs and styles
Political forces and uncertainty influences marketing and business decisions and future investments from local manufacturers.
Macro-environment
Political Legal Financial
The current economic climate has added pressure on consumer spend and many residential consumers has put home improvements and upgrades on the back burner with a negative effect on the growth of flooring sales
Demographic
Micro-environment
Global warming and government environmental regulations have added pressure on manufacturers in recent years to seek out ecologically sustainable manufacturing methods and developing eco-friendly products
Supplier
Competitors
Customer
Distributor
B_
Environmental
Economic
Technological
Social
Threats
Opportunities
In the past two years local manufacturers as well as buying groups like Top Carpets shifted their media strategy from print to digital media platforms for brand building and advertising purposes using new technology to spread the flooring news
In recent years the South African flooring landscape has moved predominantly to hard floor solutions. The social trends of yesteryear with carpeting throughout the entire house has been reduced to predominantly bedrooms only
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SWOT ANALYSIS

STRENGTHS

- Local and global networks with access to global trends, designs and innovation;
- The latest production technology;
- Design capabilities;
- Currently a strong local infrastructure and supply chain;
- Strong African brand equity;
- Sustainability and environmental rating;
- A positive vision and purpose of deep connection with all stakeholders, product responsibility to care for the environment;
- Deep market penetrating basket of products;
- User friendly webpage, Instagram and Facebook presence;
- Factory owned showrooms in JHB, KZN and Cape Town.

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WEAKNESSES

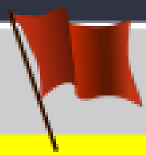
- Current production facility geared for carpet manufacturing and not hard flooring;
- Brand building and media communication to the end-user is weak;
- Wholesalers, who are a secondary supply chain and not adding substantial value to the Belgotex brand is still more than 30% of the Belgotex Gauteng market and 25% of their national market sales;
- Too dependent on current customer base and supply chain infrastructure;
- Slow innovative speed to market developments & product launches;
- Do not engage effectively with target market prior to new launches;
- Not an effective online platform – not really tapped into the IoT (Internet of Things);

SWOT ANALYSIS

Opportunities

- Use Technology and IoT to create information highway between company and customers;
- Changing flooring market conditions and trends and the need to alter the marketing mix;
- Study market trends and needs and become more proactive in addressing market needs;
- Become more sales and marketing techno savvy;
- Factory owned showrooms creating forward integrating possibilities.

Threats



- Decline soft floor as well as other floor types consumer purchasing power
- Rising cost of carpets vs other more affordable hard floor types;
- Globalisation - Cheap import imitations as seen in the artificial turf space in recent years;
- The continuous impact of hard flooring

- Increasingly high distribution costs;
- Increasing high manufacturing costs;
- Rising cost of carpets vs other more affordable hard floor types;
- Globalisation - Cheap import imitations as seen in the artificial turf space in recent years;
- The continuous impact of hard flooring

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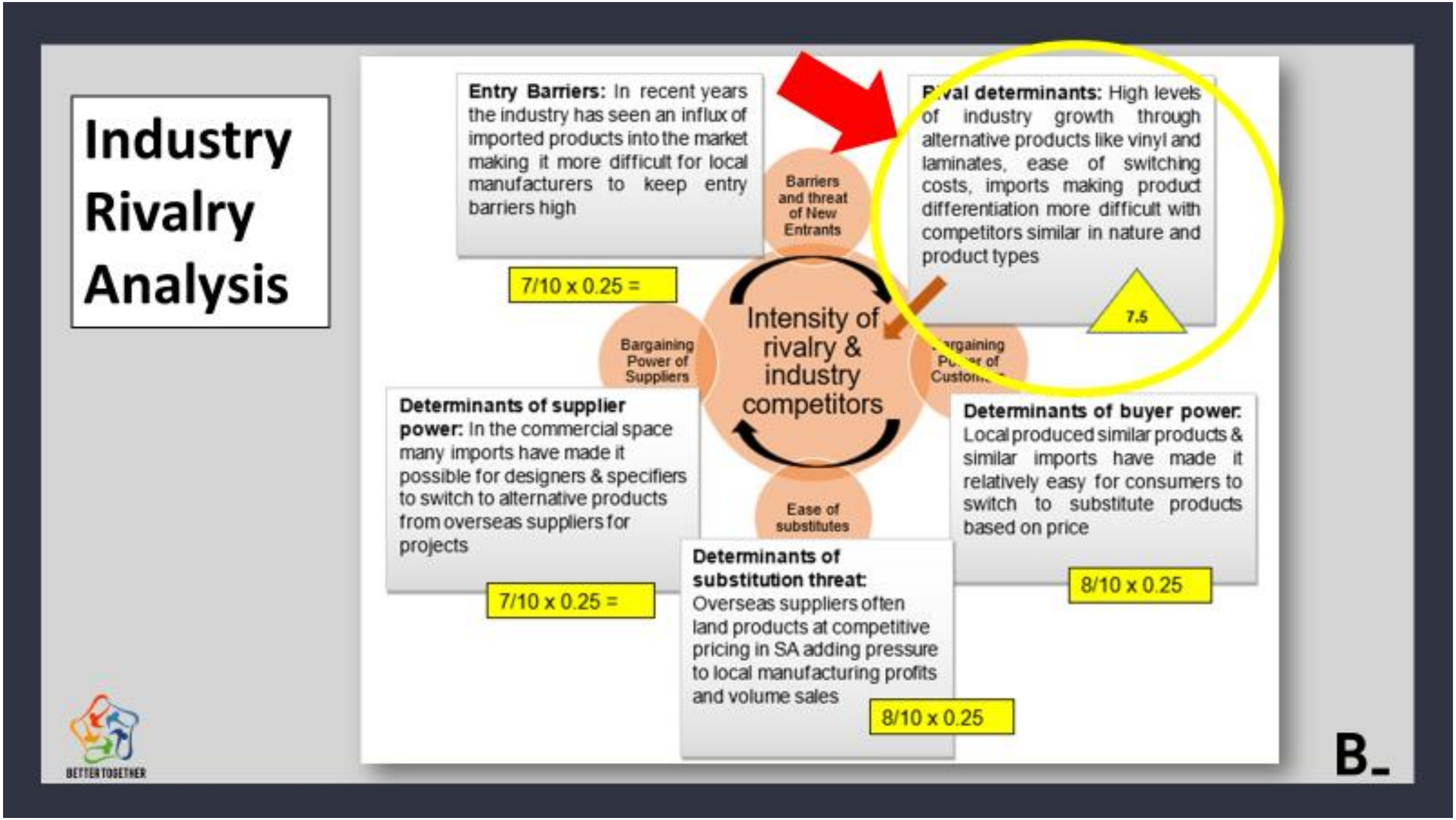

Industry Rivalry Analysis
Entry Barriers: In recent years the industry has seen an influx of imported products into the market making it more difficult for local manufacturers to keep entry barriers high
7/10 x 0.25 =
Barriers and threat of New Entrants
val determinants: High levels of industry growth through alternative products like vinyl and laminates, ease of switching costs, imports making product differentiation more difficult with competitors similar in nature and product types
7.5
Intensity of rivalry & industry competitors
Bargaining Power of Suppliers
Determinants of supplier power: In the commercial space many imports have made it possible for designers & specifiers to switch to alternative products from overseas suppliers for projects
7/10 x 0.25 =
Determinants of buyer power: Local produced similar products & similar imports have made it relatively easy for consumers to switch to substitute products based on price
8/10 x 0.25
Ease of substitutes
Determinants of substitution threat: Overseas suppliers often land products at competitive pricing in SA adding pressure to local manufacturing profits and volume sales
8/10 x 0.25
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THE INDUSTRY IN GRAPHS AND NUMBERS

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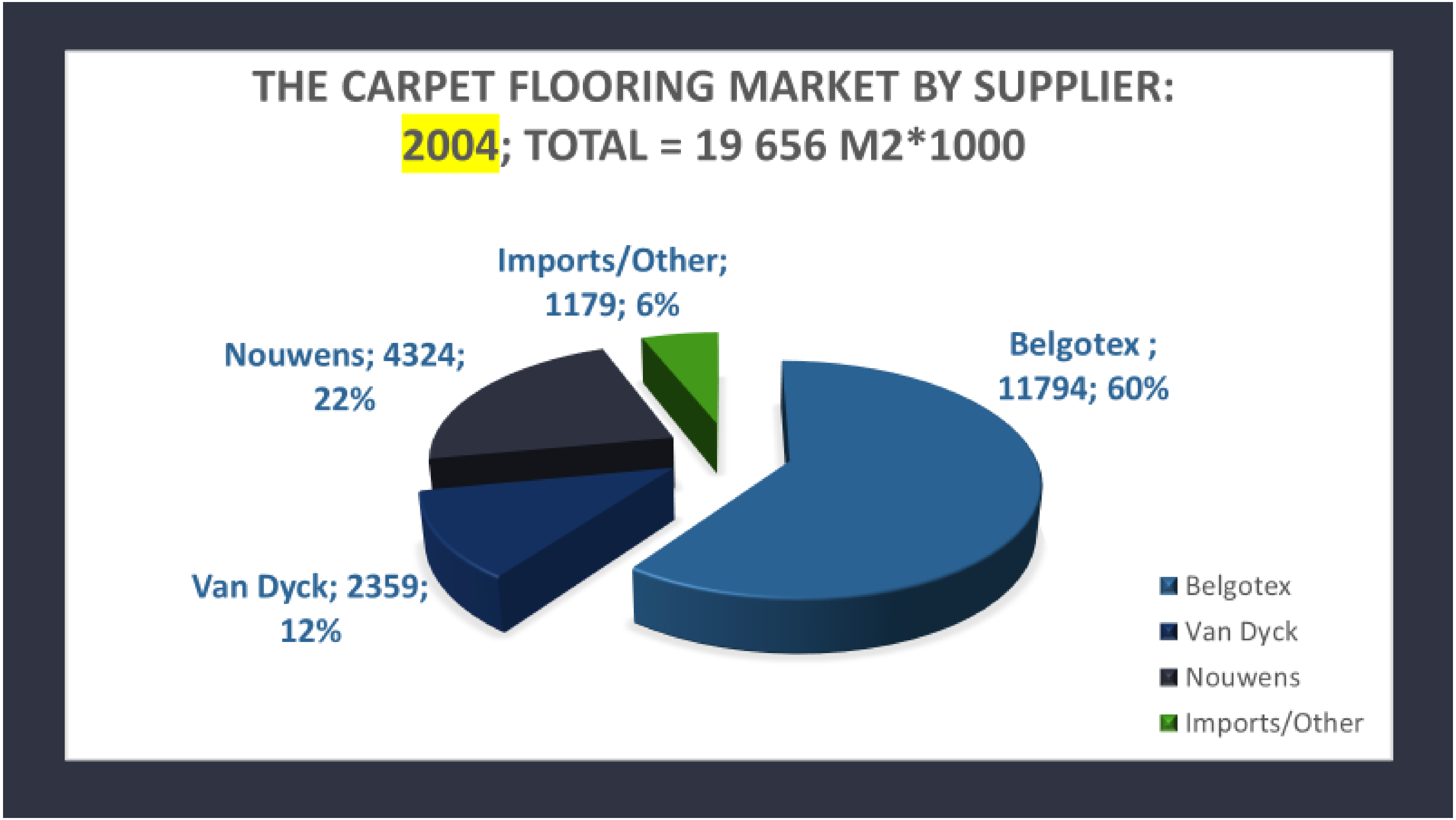
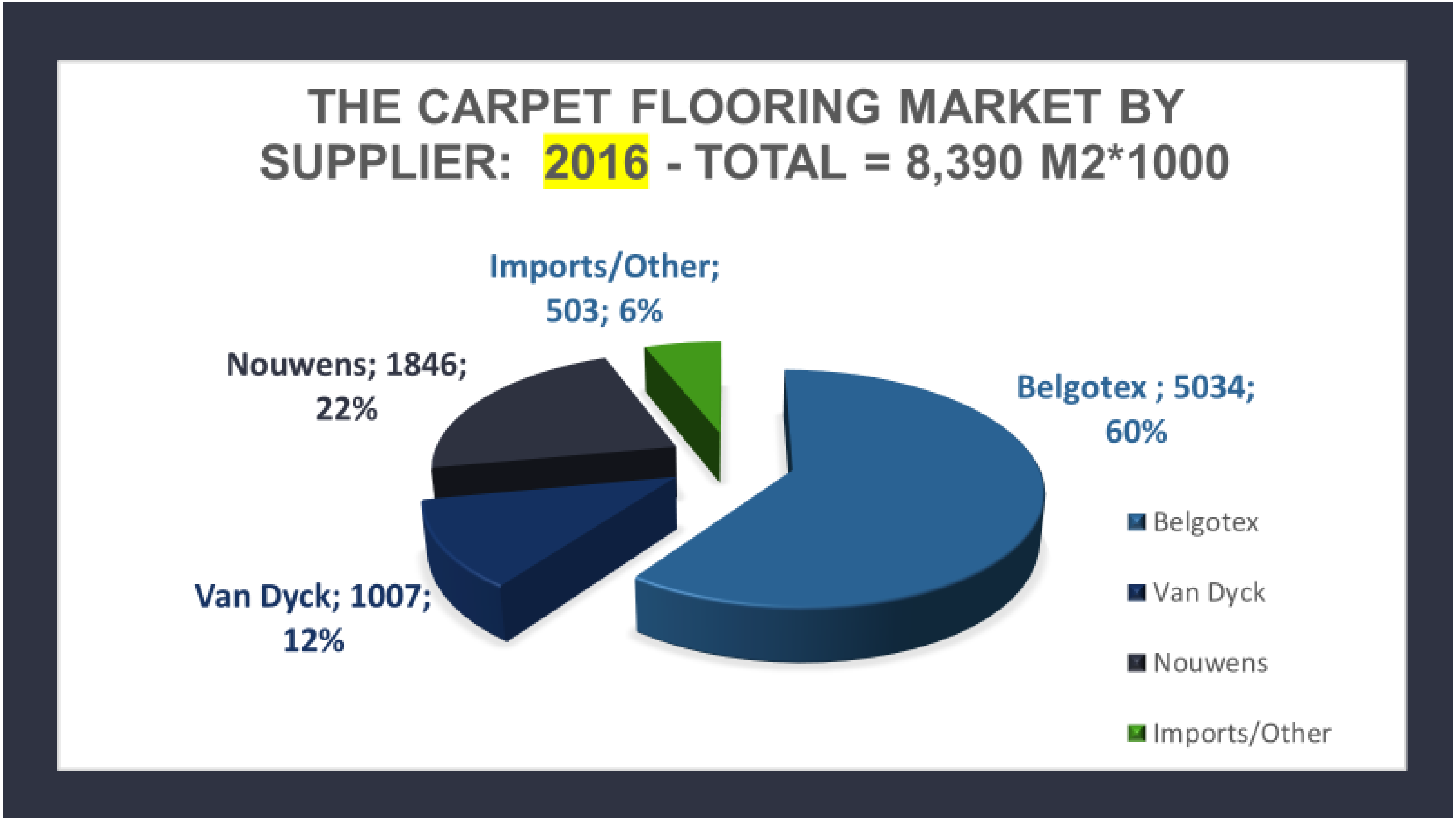
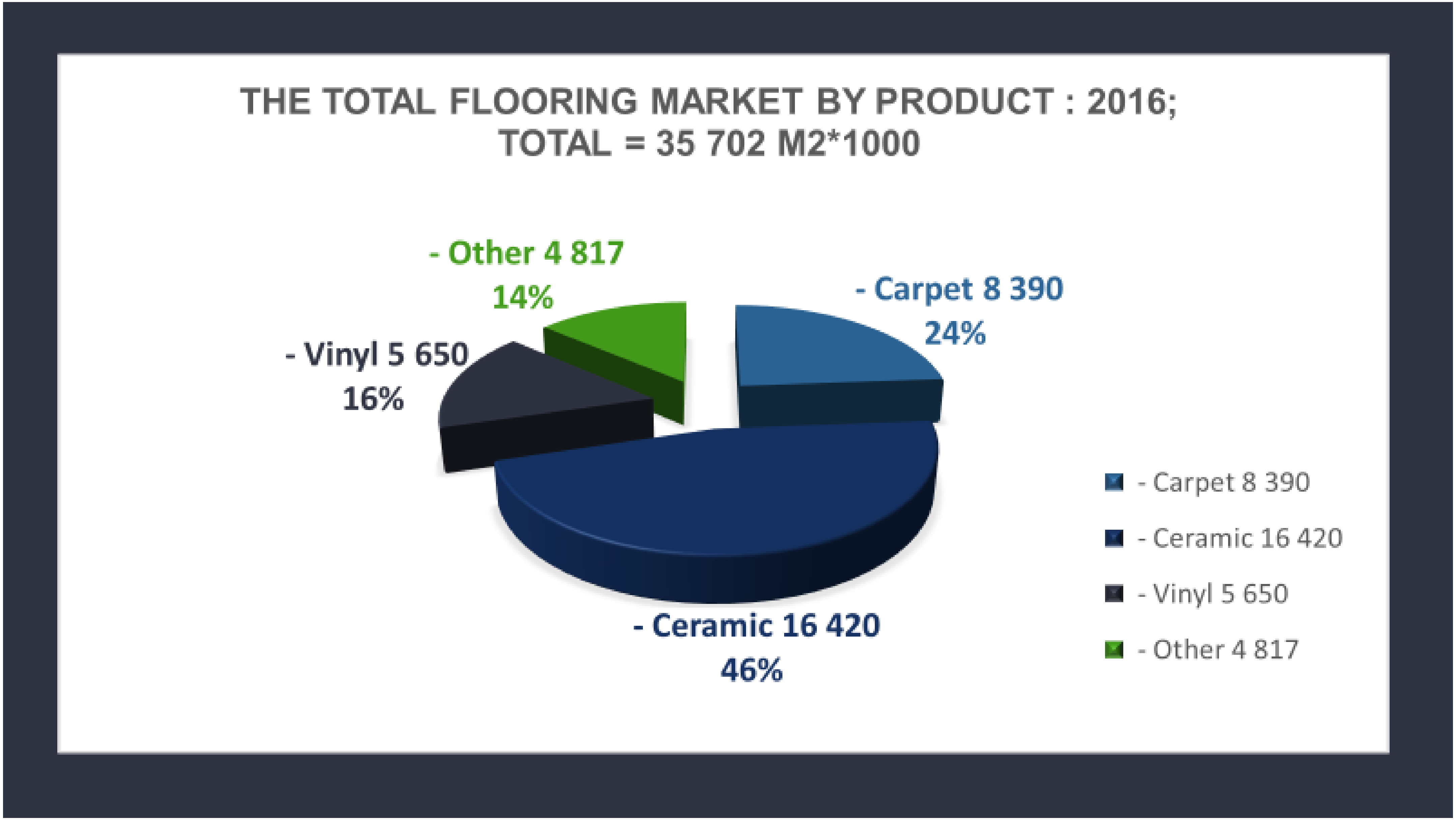
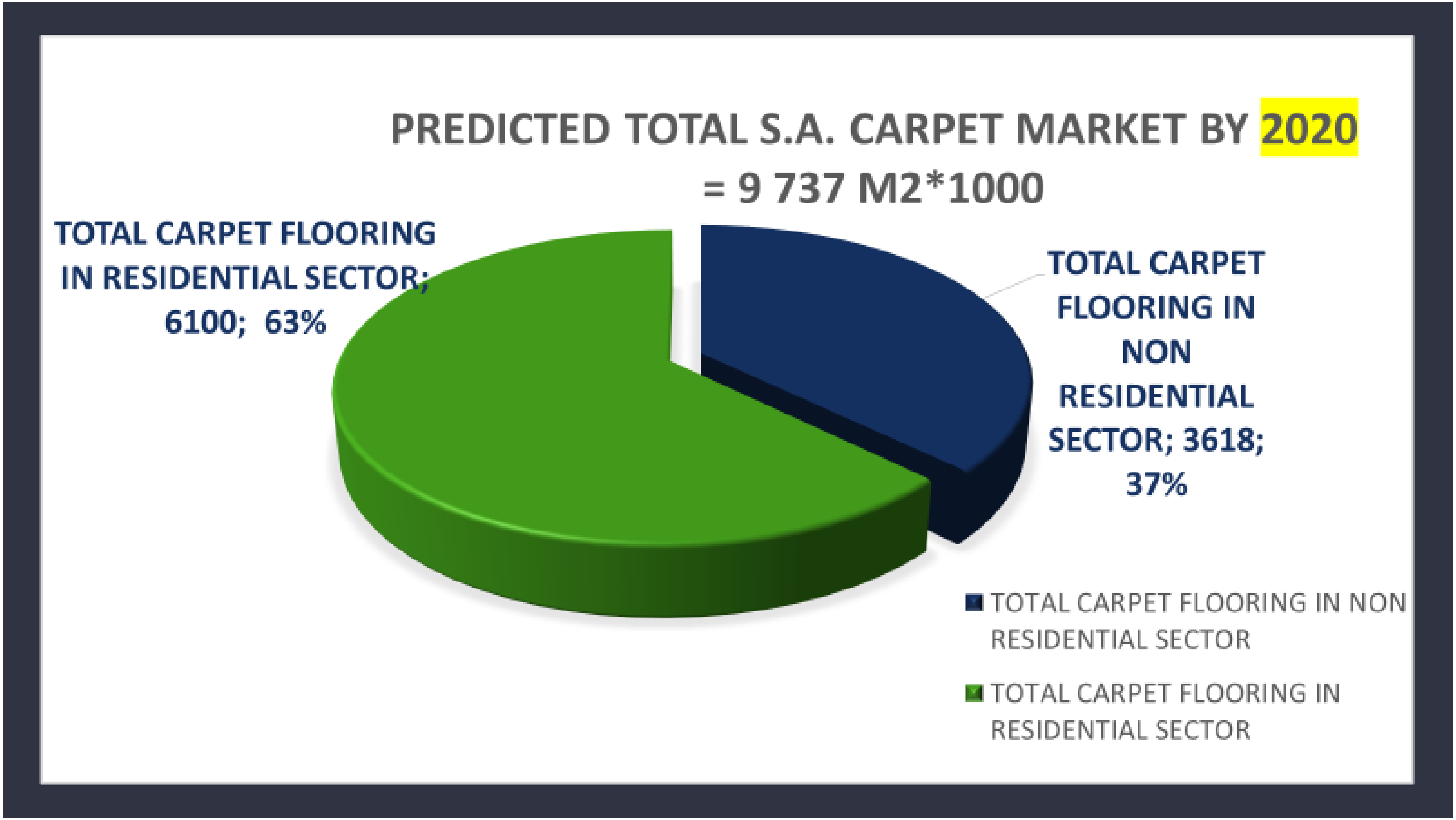

THE CARPET FLOORING MARKET BY SUPPLIER:
2004; TOTAL = 19 656 M2*1000
Imports/Other; 1179; 6%
Nouwens; 4324; 22%
Belgotex ; 11794; 60%
Van Dyck; 2359; 12%
Belgotex
Van Dyck
Nouwens
Imports/Other


THE CARPET FLOORING MARKET BY SUPPLIER: 2016 - TOTAL = 8,390 M2*1000
Imports/Other; 503; 6%
Nouwens; 1846; 22%
Belgotex ; 5034; 60%
Van Dyck; 1007; 12%
Belgotex
Van Dyck
Nouwens
Imports/Other



THE TOTAL FLOORING MARKET BY PRODUCT : 2016;
TOTAL = 35 702 M2*1000
- Other 4 817
14%
- Carpet 8 390
24%
- Vinyl 5 650
16%
- Ceramic 16 420
46%
- Carpet 8 390
- Ceramic 16 420
- Vinyl 5 650
- Other 4 817


PREDICTED TOTAL S.A. CARPET MARKET BY 2020
= 9 737 M2*1000
TOTAL CARPET FLOORING IN RESIDENTIAL SECTOR; 6100; 63%
TOTAL CARPET FLOORING IN NON RESIDENTIAL SECTOR; 3618; 37%
TOTAL CARPET FLOORING IN NON RESIDENTIAL SECTOR
TOTAL CARPET FLOORING IN RESIDENTIAL SECTOR

Belgotex Total Sales m2*1000
8000
7500
7000
6500
6000
m2
Belgotex claims they are not concern about declining volume sales as they have increased tonnage sales, and are making good margins on selling heavy weight products. Even in selling heavy weight products the company will reach a point where the scale will lean towards negative. THEY MUST STOP THE DECLINE IN TIME!
2015
2016
2017
2018

FINANCE

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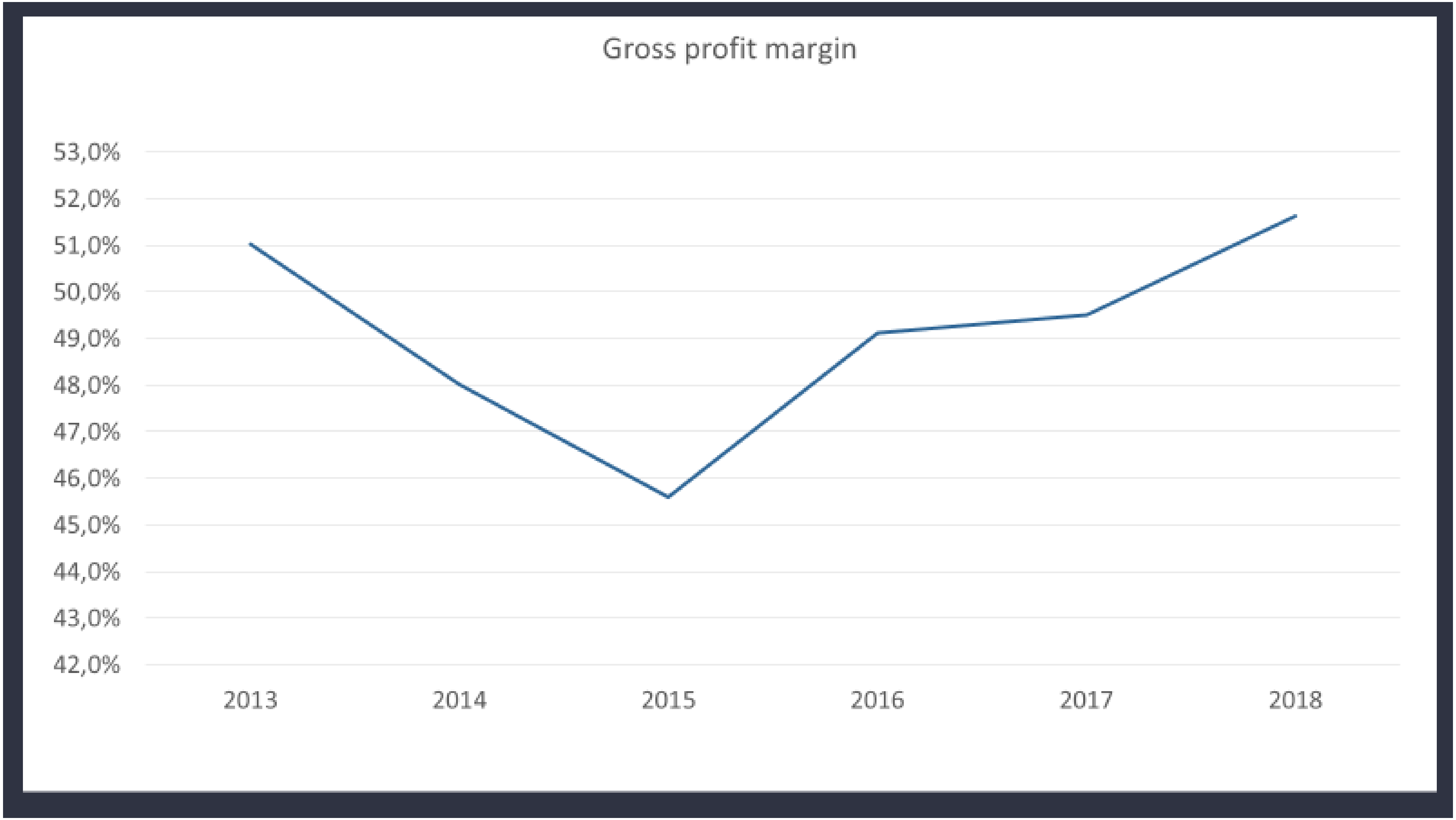
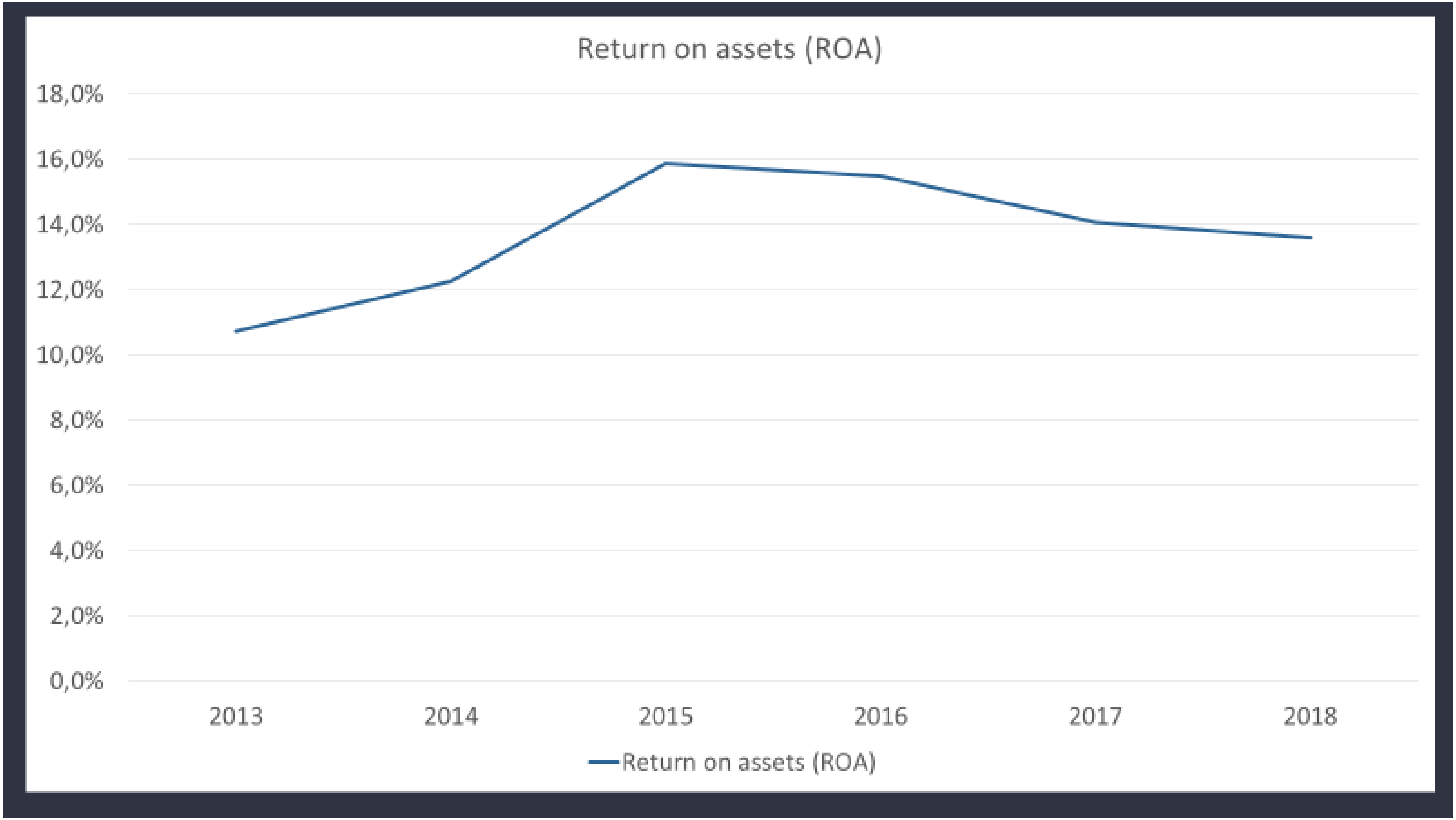
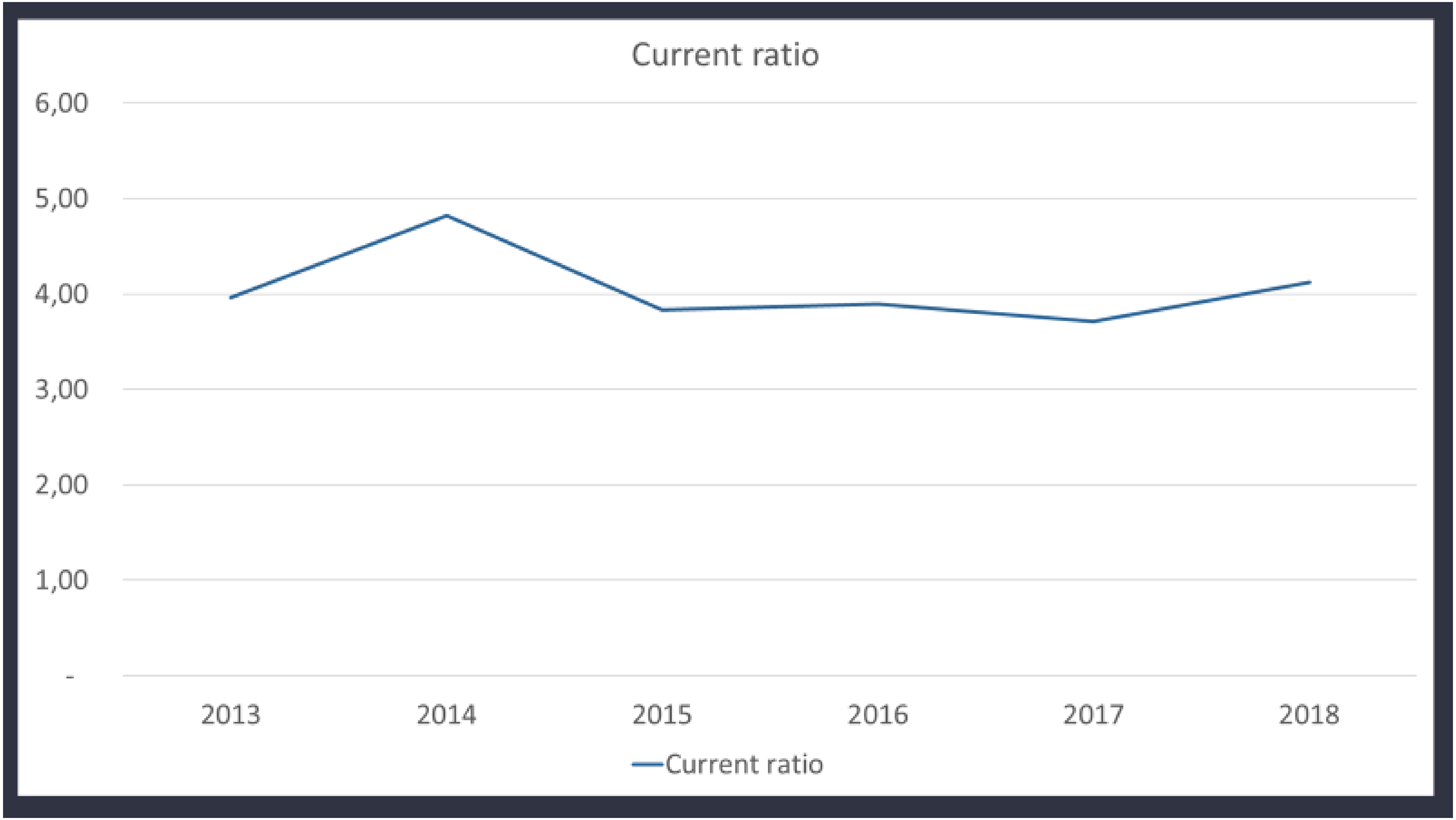

Gross profit margin
53,0%
52,0%
51,0%
50,0%
49,0%
48,0%
47,0%
46,0%
45,0%
44,0%
43,0%
42,0%
2013
2014
2015
2016
2017
2018

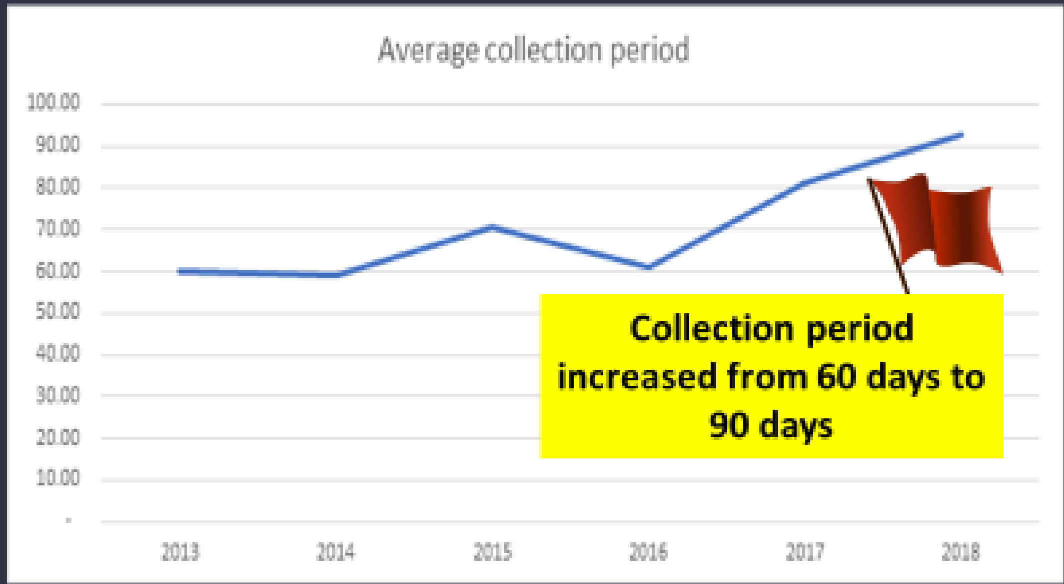

Return on sales (ROS)
12,0%
10,0%
8,0%
6,0%
4,0%
2,0%
0,0%
2013
2014
2015
2016
2017
2018
Return on sales (ROS)

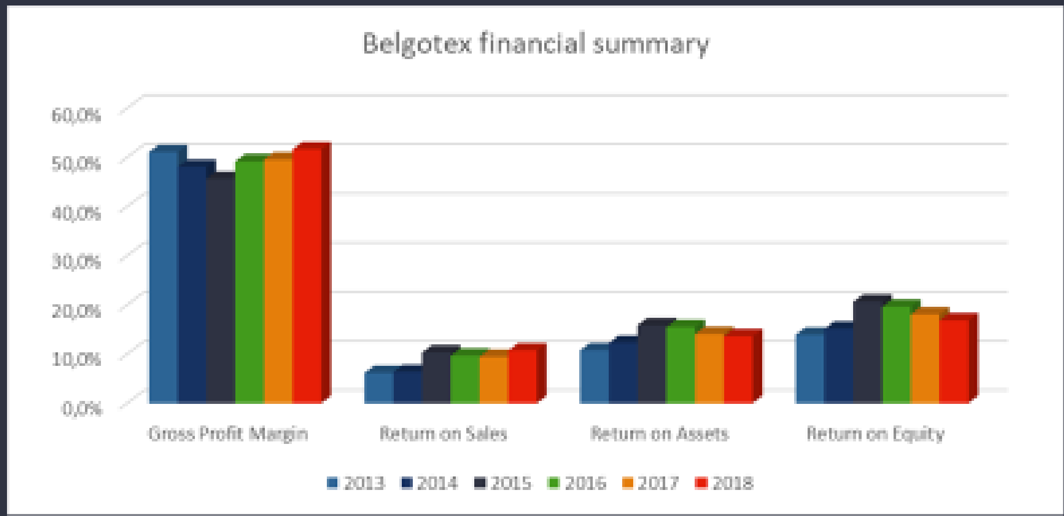

Return on assets (ROA)
18,0%
16,0%
14,0%
12,0%
10,0%
8,0%
6,0%
4,0%
2,0%
0,0%
2013
2014
2015
2016
2017
2018
Return on assets (ROA)


Current ratio
6,00
5,00
4,00
3,00
2,00
1,00
-
2013
2014
2015
2016
2017
2018
Current ratio

AVERAGE COLLECTION PERIOD

The collection period moved from 59.95 days (2013) to 91.94 (2018). In other words payments are received a whole month later then in the past. Cash flow problems could be created because of this trend. This also indicates a lack in the managing of working capital.





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MRA MODEL

- Mix – Gross profit ratio
- Retained – % GP retained
- Activity – Working capital / Sales

MRA = Mix x Retained x Activity

Average over 5 years (2013-2017)

- Mix = 49,1%
- Retained = 23,6%
- Activity = 1,55
- MRA = 17,92

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2018

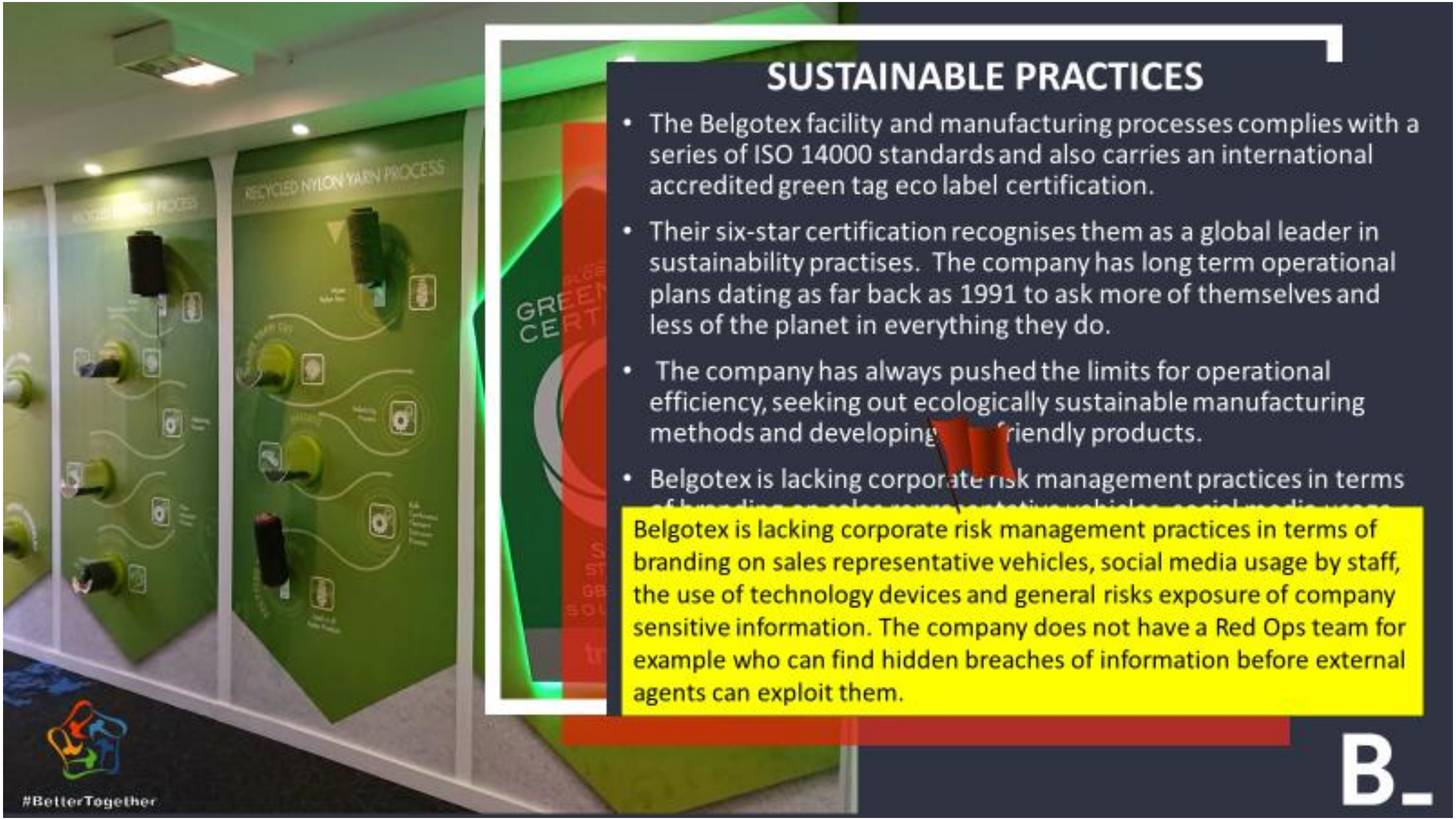
- Mix = 51,6%
- Retained = 27,2%
- Activity = 1,27
- MRA = 17,74

Reducing collection period & inventory

- Mix = 51,6%
- Retained = 27,2%
- Activity = 1,46
- MRA = 20,42

- **Reduce the collection period with 30 days**
- **Increase stock turnover to 3 times**
Release capital of
R100million

B_



SUSTAINABLE PRACTICES
• The Belgotex facility and manufacturing processes complies with a series of ISO 14000 standards and also carries an international accredited green tag eco label certification.
• Their six-star certification recognises them as a global leader in sustainability practises. The company has long term operational plans dating as far back as 1991 to ask more of themselves and less of the planet in everything they do.
• The company has always pushed the limits for operational efficiency, seeking out ecologically sustainable manufacturing methods and developing friendly products.
• Belgotex is lacking corporate risk management practices in terms
Belgotex is lacking corporate risk management practices in terms of branding on sales representative vehicles, social media usage by staff, the use of technology devices and general risks exposure of company sensitive information. The company does not have a Red Ops team for example who can find hidden breaches of information before external agents can exploit them.
RECYCLED NYLON YARN PROCESS
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BRANDING

- In 2017 Belgotex opened showrooms that are available for the direct public and is a step in the right direction to get brand recognition.
- The brand of Belgotex is the organizations "corporate image" as well as everything the company is involved in and everything owned by them.
- Everything should reflect the company's brand. The brand builds the core of the business and shows everything the company believes and stands for.
- Belgotex is a family owned business and they have built the values and "brand" of the business accordingly.

THE BELGOTEX REBRAND 2017

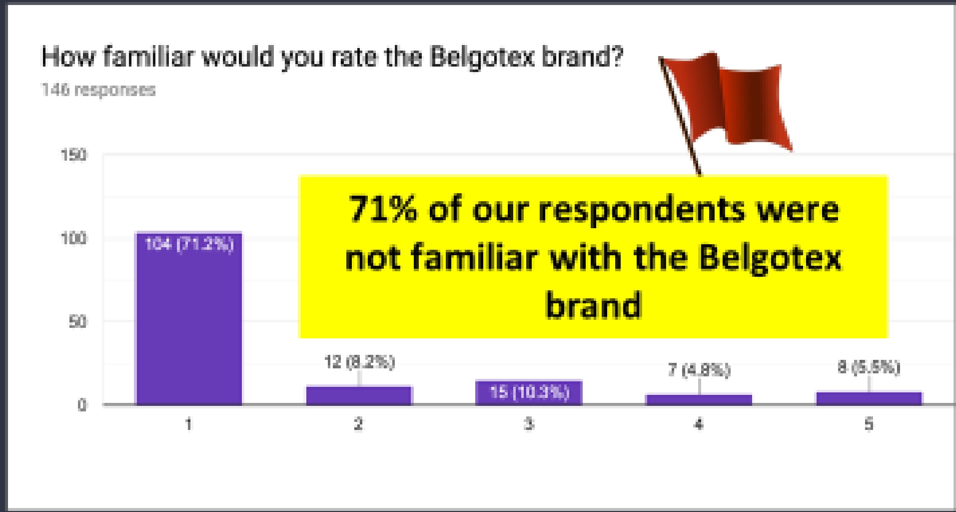
OLD	NEW
Belgotex floors A WORLD OF CHOICE	B_ Belgotex

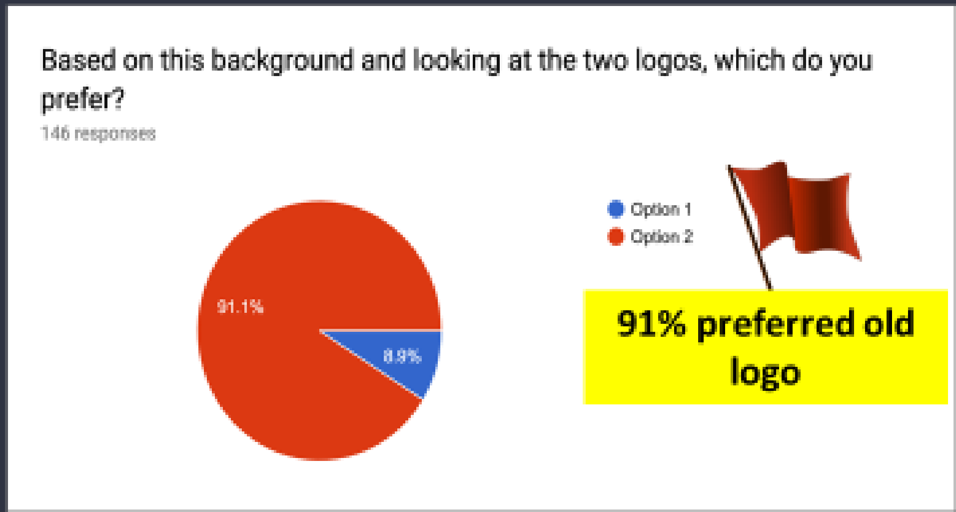
When the audience sees the B_ symbol do they connect it to Belgotex? The general flooring trade will recognize the brand as they deal with Belgotex daily, however does the average consumer recognize it? If Belgotex wants to have a stronger recognition or presence with the B2C market, they need to make their brand stand out. It needs to have strong brand recognition from the consumers.

B_

RESULTS FROM OUR BRANDING SURVEY

- A survey was done to test recognition of the Belgotex brand. While the design of the logo is a beautiful, modern and clean-cut, we tested whether it was effective as a logo and part of the Belgotex Brand.
- When building a brand, organizations must follow the correct methodology. Belgotex rebranded in 2017 and we surveyed brand recognition to confirm that the new brand is recognized within industries across South Africa.
- An elementary survey was done to see what Belgotex's brand recognition is in the general market. In the Survey, we had 146 respondents. 64.4% Female and 35.6% Male.






DIGITAL MARKETING
Belgotex
• FACEBOOK: The Facebook page is a designer's paradise of ideas of how Belgotex could add an elegance and quality to an interior design. The Facebook page is another example of how thorough Belgotex is with pulling the look and feel through everything involved with the company.
• One element on the Facebook page where Belgotex can still improve is user-engagement. They lack posts where they invite followers to participate in the conversation and th n important aspect to make your company's voice heard through the social media platform.
Customer interaction is not as effective as one would hope
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DIGITAL MARKETING
• INSTAGRAM: Belgotex's Instagram page has a lot of potential, because most of the individual posts and photos are really good and creative.
• The visual whole still needs work though. Belgotex finds themselves in the décor industry and their page needs to reflect the creativity and design that comes with this industry.
• Their page needs to inspire and help potential clients envision how their dream house or business will look, styled with Belgotex products.
• Human interest posts and user interaction are also two elements lacking on Belgotex's Instagram page.
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PROCUREMENT
Belgotex uses a Make-to-stock (push-type) production approach for their products
As noticed in the Belgotex ratio analysis, has a large inventory. In future it might be necessary to look at an alternative inventory management framework that controls inventory value without losing customers. The objective is to find ways to reduce inventory and free-up working capital, while maintaining service levels.
Excessive inventory levels / working capital constrains
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BBBEE SCORECARD INITIATIVE
• Belgotex uses an outsourced transport company for their long and short haul distribution
• Our proposal is to develop an enterprise or supplier development initiative by collaborating with existing BBBEE entrepreneurs in the region, empowering drivers from previously disadvantaged backgrounds to own and run their own business and to manage the company's transportation, which in return achieve points on their BBBEE scorecard.
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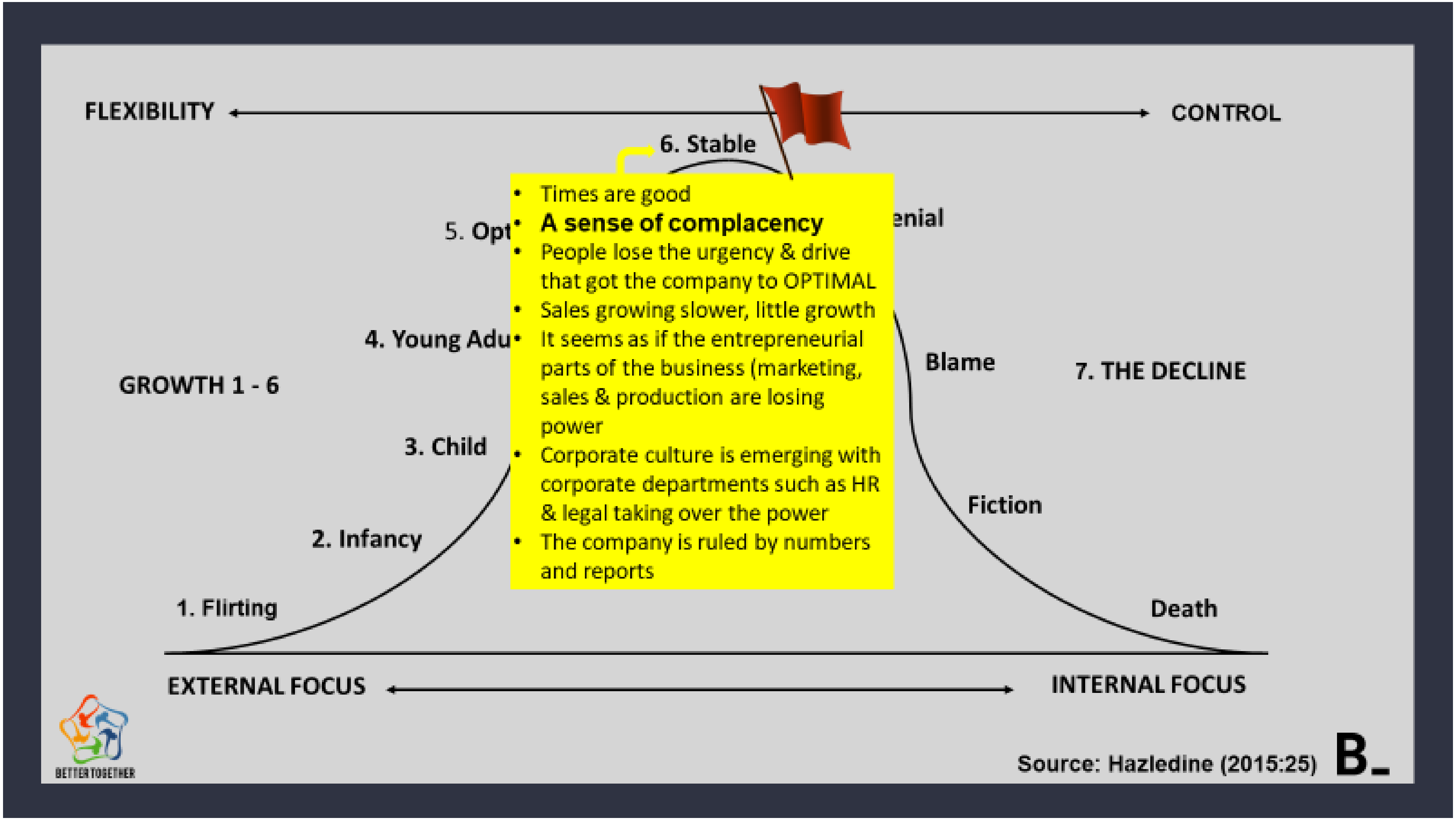
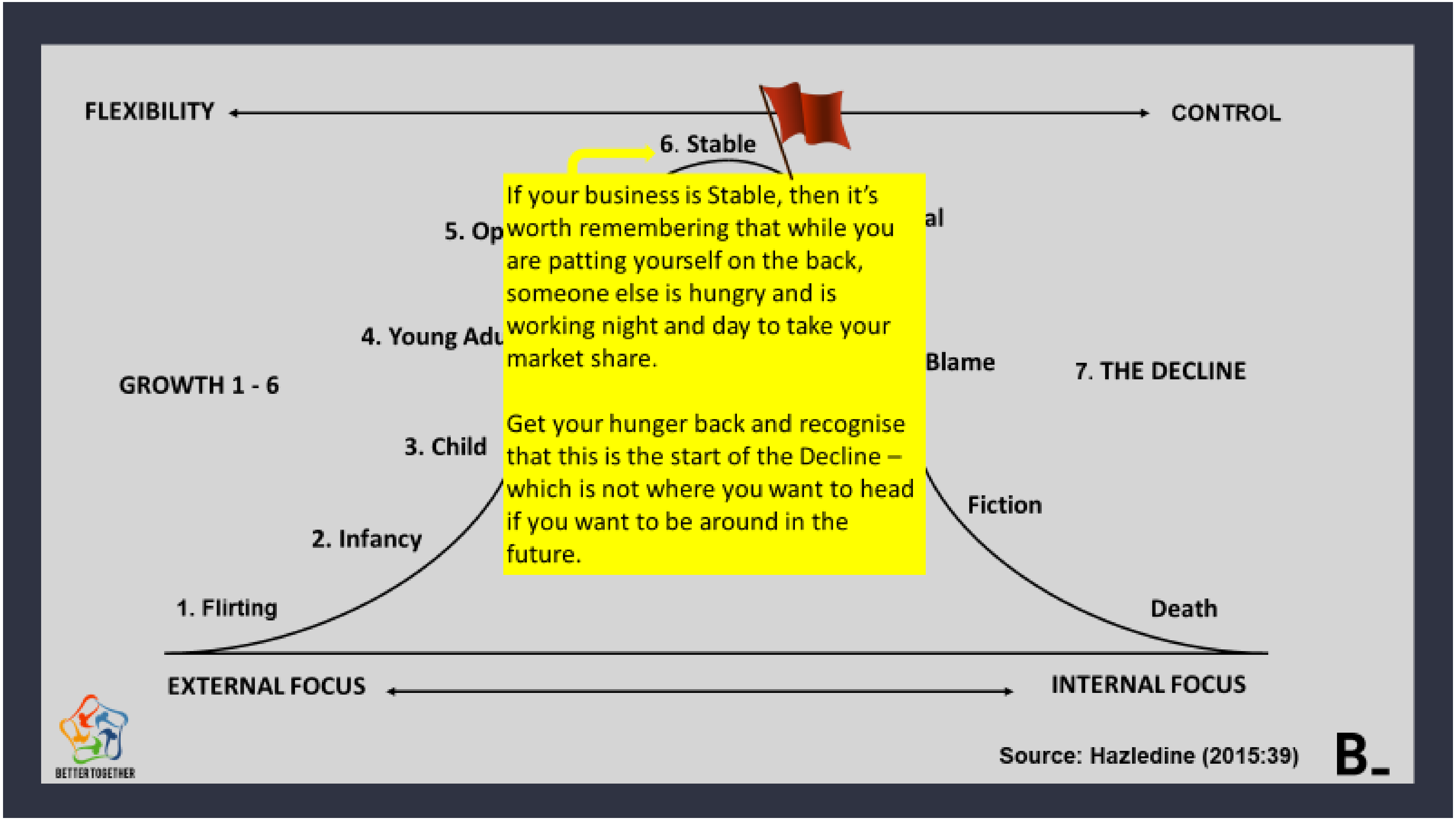

FLEXIBILITY
CONTROL
6. Stable
5. Opt
enial
4. Young Adu
GROWTH 1 - 6
3. Child
2. Infancy
1. Flirting
Blame
7. THE DECLINE
Fiction
Death
• Times are good
• A sense of complacency
• People lose the urgency & drive that got the company to OPTIMAL
• Sales growing slower, little growth
• It seems as if the entrepreneurial parts of the business (marketing, sales & production are losing power
• Corporate culture is emerging with corporate departments such as HR & legal taking over the power
• The company is ruled by numbers and reports
EXTERNAL FOCUS
INTERNAL FOCUS
BETTER TOGETHER
Source: Hazledine (2015:25)


FLEXIBILITY
CONTROL
6. Stable
If your business is Stable, then it's worth remembering that while you are patting yourself on the back, someone else is hungry and is working night and day to take your market share.
Get your hunger back and recognise that this is the start of the Decline – which is not where you want to head if you want to be around in the future.
5. Op
al
4. Young Adu
Blame
GROWTH 1 - 6
7. THE DECLINE
3. Child
Fiction
2. Infancy
1. Flirting
Death
EXTERNAL FOCUS
INTERNAL FOCUS
BETTER TOGETHER
Source: Hazledine (2015:39)
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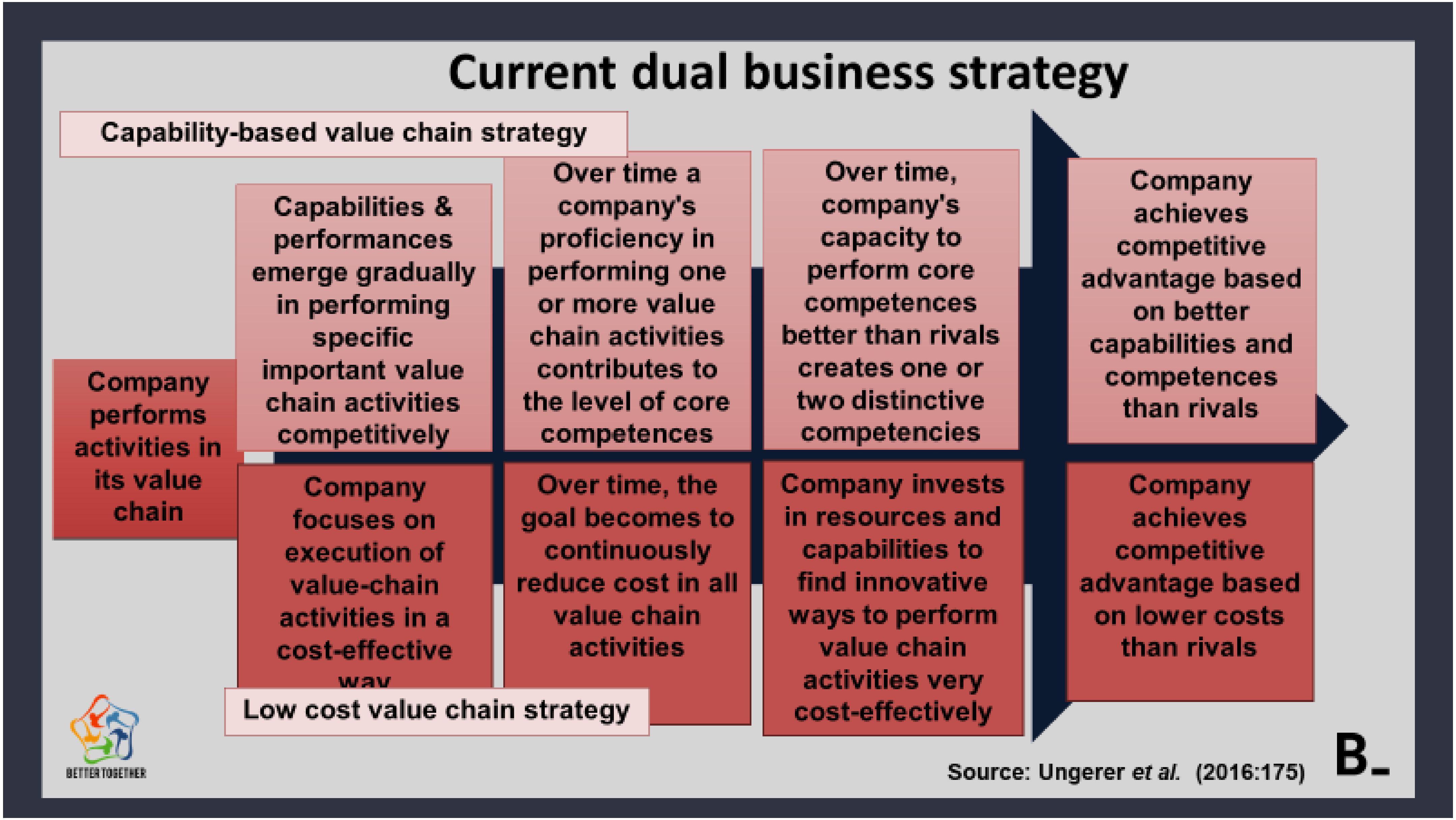
Current dual business strategy
Capability-based value chain strategy
Company performs activities in its value chain
Capabilities & performances emerge gradually in performing specific important value chain activities competitively
Over time a company's proficiency in performing one or more value chain activities contributes to the level of core competences
Over time, company's capacity to perform core competences better than rivals creates one or two distinctive competencies
Company achieves competitive advantage based on better capabilities and competences than rivals
Company focuses on execution of value-chain activities in a cost-effective way
Over time, the goal becomes to continuously reduce cost in all value chain activities
Company invests in resources and capabilities to find innovative ways to perform value chain activities very cost-effectively
Company achieves competitive advantage based on lower costs than rivals
Low cost value chain strategy
BETTER TOGETHER
Source: Ungerer et al. (2016:175)
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THE BELGOTEX BUSINESS MODEL CANVAS
A business model focus on customers, value creation, partnerships and any resources for business sustainability
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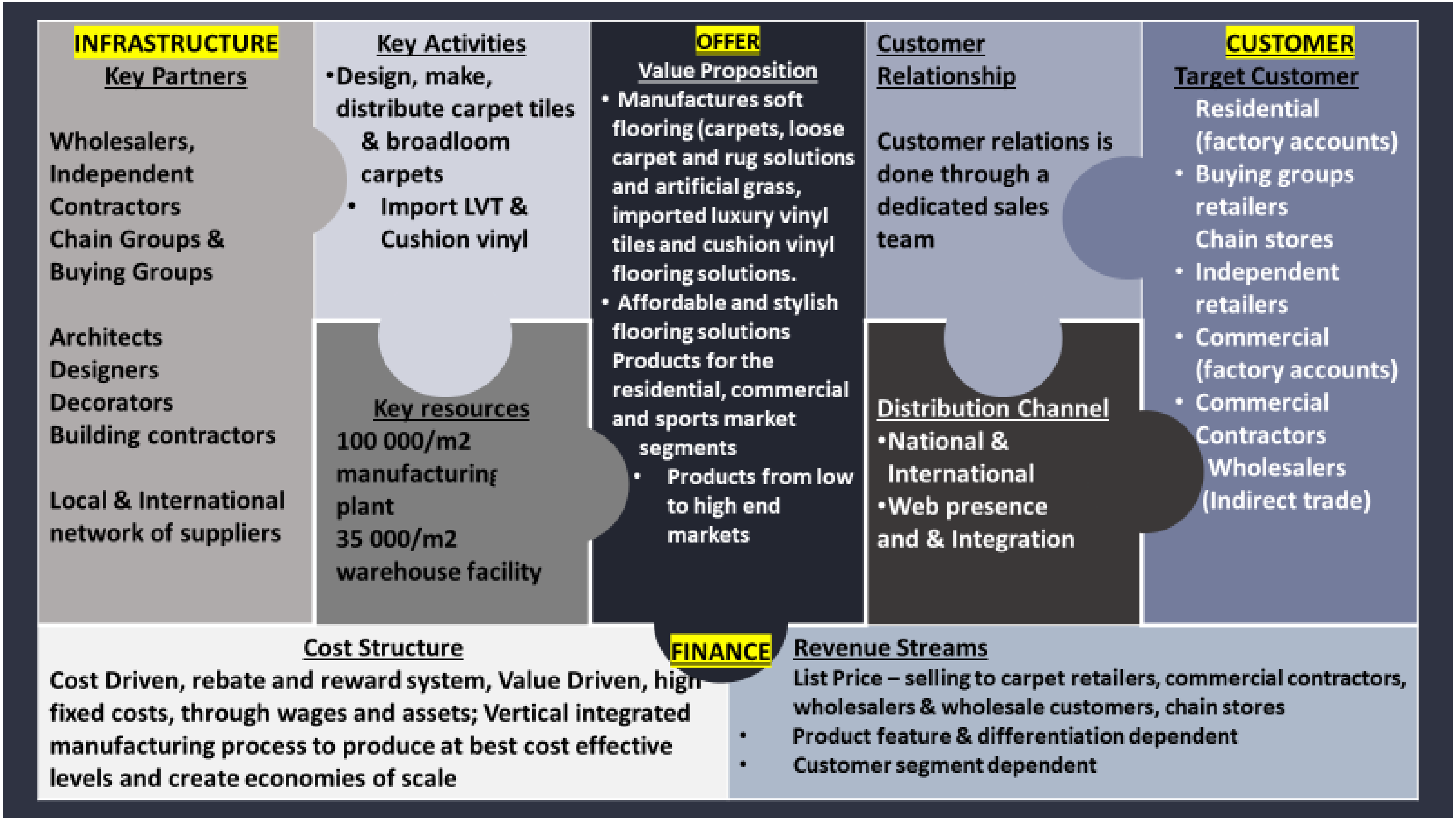
INFRASTRUCTURE
Key Partners
Wholesalers, Independent Contractors Chain Groups & Buying Groups
Architects Designers Decorators Building contractors
Local & International network of suppliers
Key Activities
•Design, make, distribute carpet tiles & broadloom carpets
• Import LVT & Cushion vinyl
Key resources
100 000/m2 manufacturing plant
35 000/m2 warehouse facility
OFFER
Value Proposition
• Manufactures soft flooring (carpets, loose carpet and rug solutions and artificial grass, imported luxury vinyl tiles and cushion vinyl flooring solutions.
• Affordable and stylish flooring solutions
Products for the residential, commercial and sports market segments
• Products from low to high end markets
Customer Relationship
Customer relations is done through a dedicated sales team
Distribution Channel
•National & International
•Web presence and & Integration
CUSTOMER
Target Customer
Residential (factory accounts)
• Buying groups retailers
Chain stores
• Independent retailers
• Commercial (factory accounts)
• Commercial Contractors
Wholesalers (Indirect trade)
Cost Structure
Cost Driven, rebate and reward system, Value Driven, high fixed costs, through wages and assets; Vertical integrated manufacturing process to produce at best cost effective levels and create economies of scale
FINANCE
Revenue Streams
List Price – selling to carpet retailers, commercial contractors, wholesalers & wholesale customers, chain stores
• Product feature & differentiation dependent
• Customer segment dependent

PHASE THREE


NEW STRATEGY
THE WAY FORWARD
Strategy is a concept where a business focus on vision, mission, values and goal-setting. The environment, value creation, competition and competitive advantage forms part of strategy.
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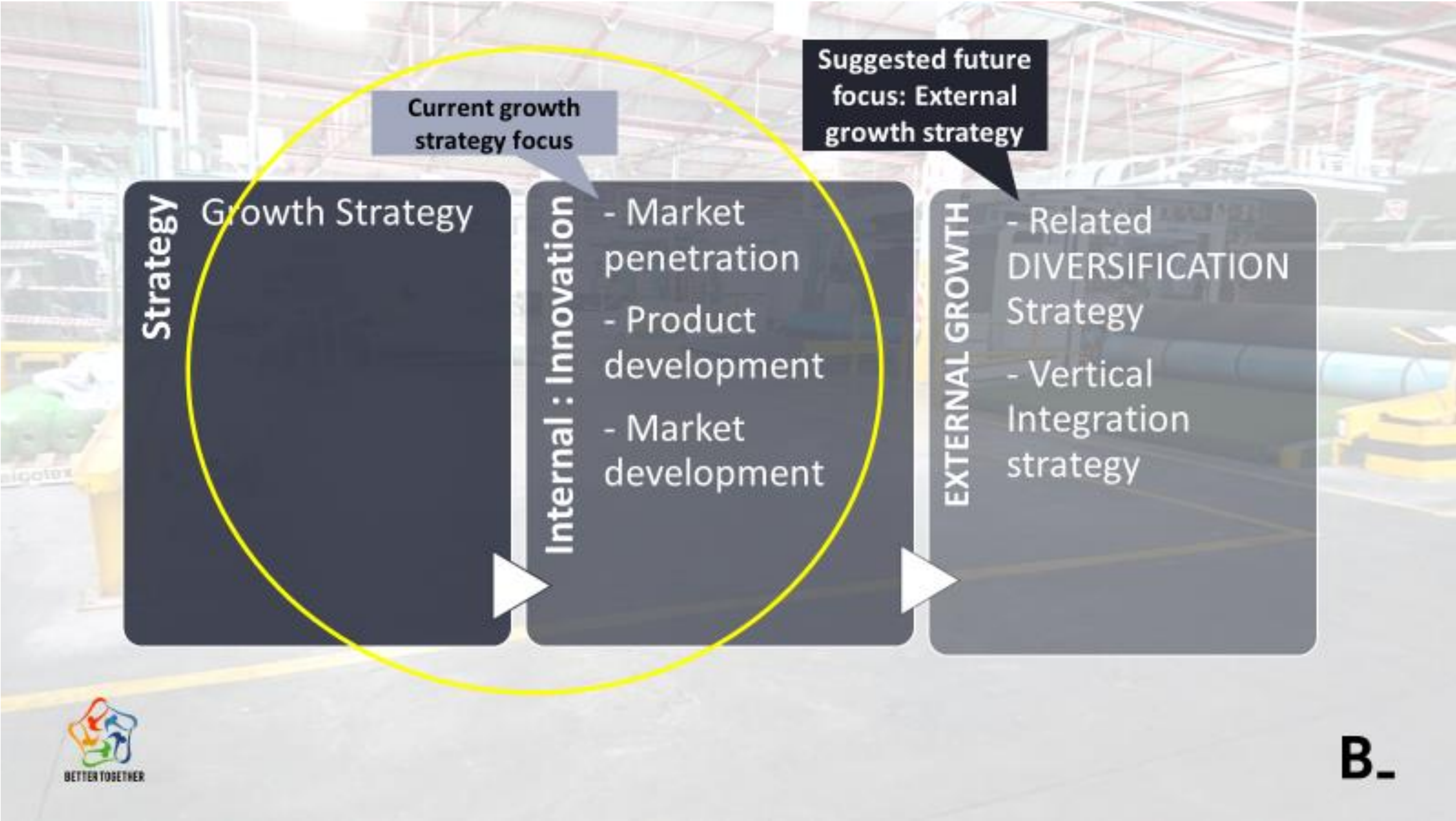
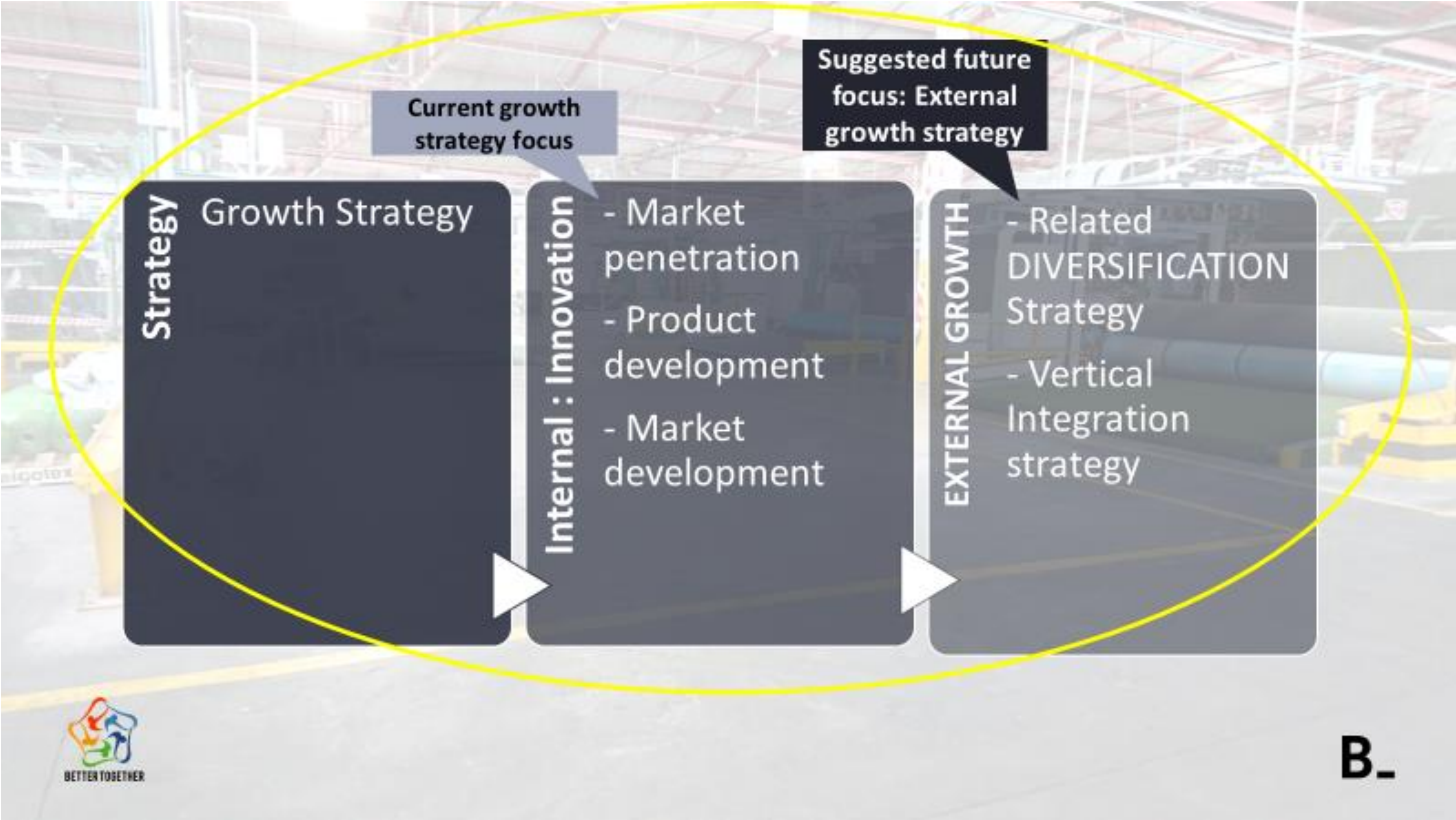

Current growth strategy focus
Suggested future focus: External growth strategy
Strategy
Growth Strategy
Internal : Innovation
- Market penetration
- Product development
- Market development
EXTERNAL GROWTH
- Related DIVERSIFICATION Strategy
- Vertical Integration strategy
BETTER TOGETHER
B_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BETTER TOGETHER
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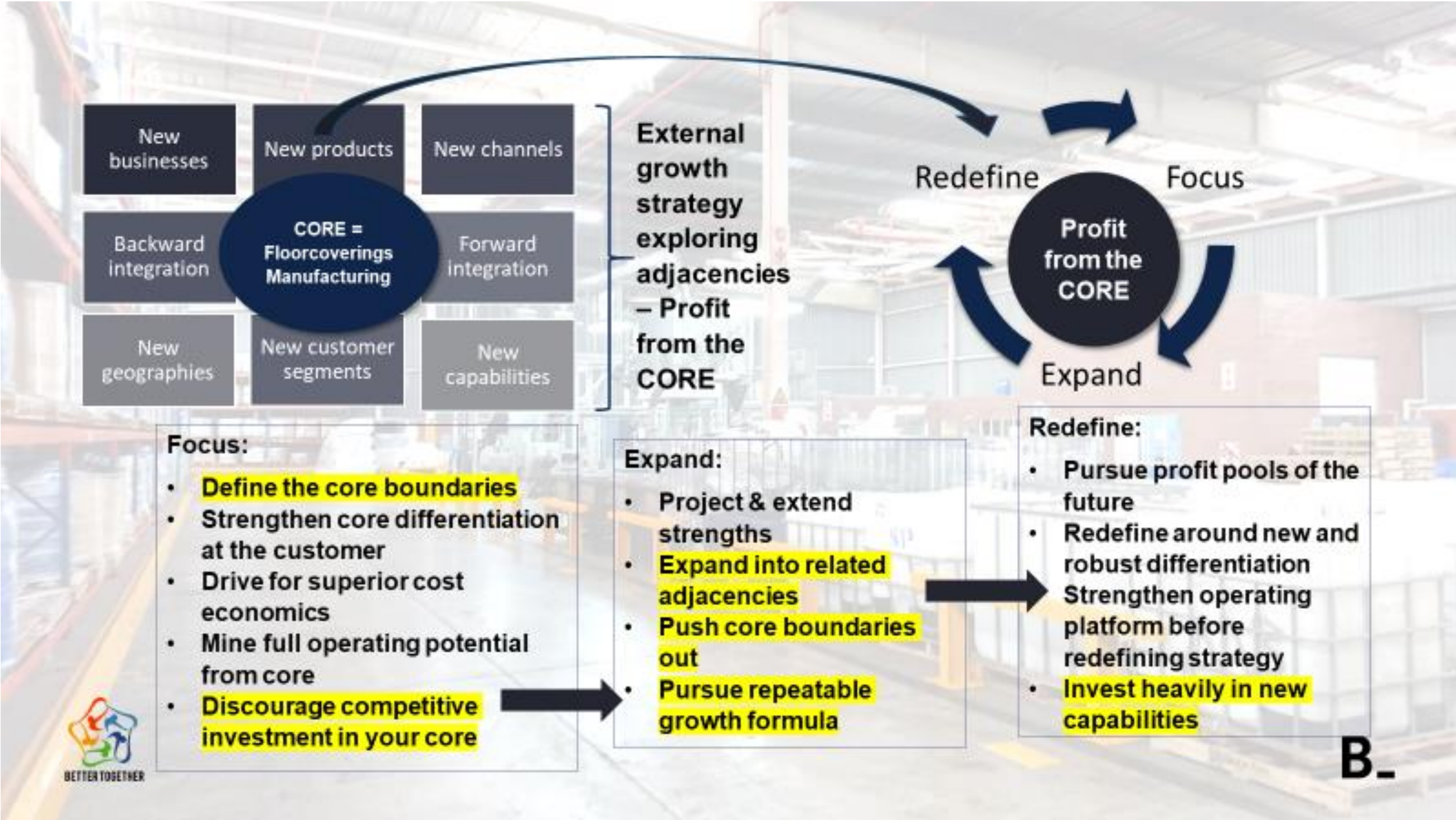
New businesses
New products
New channels
Backward integration
CORE = Floorcoverings Manufacturing
Forward integration
New geographies
New customer segments
New capabilities
External growth strategy exploring adjacencies – Profit from the CORE
Redefine
Focus
Profit from the CORE
Expand
Focus:
Define the core boundaries
Strengthen core differentiation at the customer
Drive for superior cost economics
Mine full operating potential from core
Discourage competitive investment in your core
Expand:
Project & extend strengths
Expand into related adjacencies
Push core boundaries out
Pursue repeatable growth formula
Redefine:
Pursue profit pools of the future
Redefine around new and robust differentiation
Strengthen operating platform before redefining strategy
Invest heavily in new capabilities
BETTER TOGETHER
B_

Strategy Execution Road Map

SUMMARY: AREAS OF CONCERN

Identified	Suggestions
Belgotex rely heavily on sales and marketing – No dedicated sales director	We suggest the employment of a Marketing Director
Belgotex guesstimate 60% of local soft floor market and only 10% of vinyl market	Need to have a look at not just importing vinyl but manufacturing it as well.
Is the vision 2025 of 50% local and 50% export sales achievable with the present product offerings	A clear strategy should be developed in order to gain a better understanding of where the company is headed and how they are planning to achieve this.
Very little influence in the final consumer decision making process, this process is still in the control of the retailers chain	Research the option of a forward integration strategy.
Increased debtors collection period – 60 to 90 days	Reduce collection period to 60 days to generate working capital
Continuous decline in volume sales	Explore the possibility of an external growth strategy with a focus on their core business of manufacturing hard flooring solutions in their portfolio. The company as mentioned above needs a sales and marketing Director focus

SUMMARY: AREAS OF CONCERN

Identified	Suggestions
Rebranding requires more focus as their seems to be challenges with brand recognition as the stats indicates from our survey	Re-evaluation of the B_ - make the B_ more unique to the company
Lack corporate risk management practices	We suggest that they investigate risk management practices e.g. Risk Register
Facebook – customer interaction feature needs more attention	Posts should draw customers in to want to interact and find out more about the industry.
Excessive inventory	Reduce Inventory to increase working capital
A sense of complacency	Get your hunger back and recognise the start of the Decline. Re-evaluate your Focus

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AN INDUSTRY IN TOUGH TIMES… THE WAY FORWARD

1. Embrace – Tough times breed great leaders

   Tough times help great leaders to come up with great ideas to survive
   Understand the problem and use it as a necessary step towards the ultimate outcome

2. Pause & Ponder – Confront reality and do the maths, in other word confront reality and use analytics to define the real problem

   Get to the root of the problem, and then find a solution that will really work

3. Engage – See people as you allies encourage your team to come up with ideas to solve the problem and to evolve the status quo

4. ACT – Be bold, be decisive

   Build the machine to solve the problem, taking into account both the short and long term
   It's an industry leader's job to take ownership and to stay ahead, monitoring and measuring success


THANK YOU
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Appendix for Marketing Section:

Survey Questions: Branding Recognition Questionnaire

Section 1: Brand Recognition

1. Are you Male or Female? *
- Male
- Female

2. What age category do you fall in? *
- 18-30
- 31-40
- 41-50
- 50-60
- 60+
- Other:

3. Which Province do you reside? *
- North West
- Gauteng
- KwaZulu Natal
- Free State
- Mpumalanga
- Eastern Cape
- Northern Cape
- Western Cape
- Limpopo
- Other:

4. Which one of the following applies to you? *
- Student
- Working Professional
- Retired Professional
- Other

5. Which industry are you in? (If student, which field are you studying) *
- Design, Communications, Production
- Architecture, Engineering, Interior Design, Construction
- Health, Nurses, Doctors, Pharmacists
- Higher Education, Education Related field
- Transportation Industries
- Banking, Finance, Investing, Accountants
- Mining, Oil & Gas, Electrical
- Textile Industry
- Other:

6. **Looking at the logo below, what product would you think it is? (Without researching it) ***

Belgotex™

- Medicine or Health
- Cleaning Product
- Flooring or Carpeting
- Food or Beverage
- Laboratory equipment
- Electronics

7. **How familiar would you rate the Belgotex brand?**

1 2 3 4 5

Unfamiliar Well-known

8. **Which of the following brands do you recognise? (Tick all the ones you recognise) ***

- Coca Cola
- Nike
- Haval
- Nissan
- Kia
- Belgotex
- CTM
- All Gold
- Tile Africa
- Apple
- Russel Hobbs

9. Which of the following Logo acronyms do you recognise? *

Option 1

Option 2

Option 3

Option 4

Option 5

Option 6

10. Please feel free to add extra comments about the Belgotex Logo shown above.

Section 2: Comparison of the old and new Brand/Logo

Belgotex is Africa's leading carpet and artificial grass Manufacturer. They design different types of flooring for different needs such as; Office Flooring, Astro turf, Home flooring etc

11. Based on this background and looking at the two logos, which do you prefer? *

Option 1

Option 2

a) Please give a short reason to your above selection regarding the logos?
Your answer

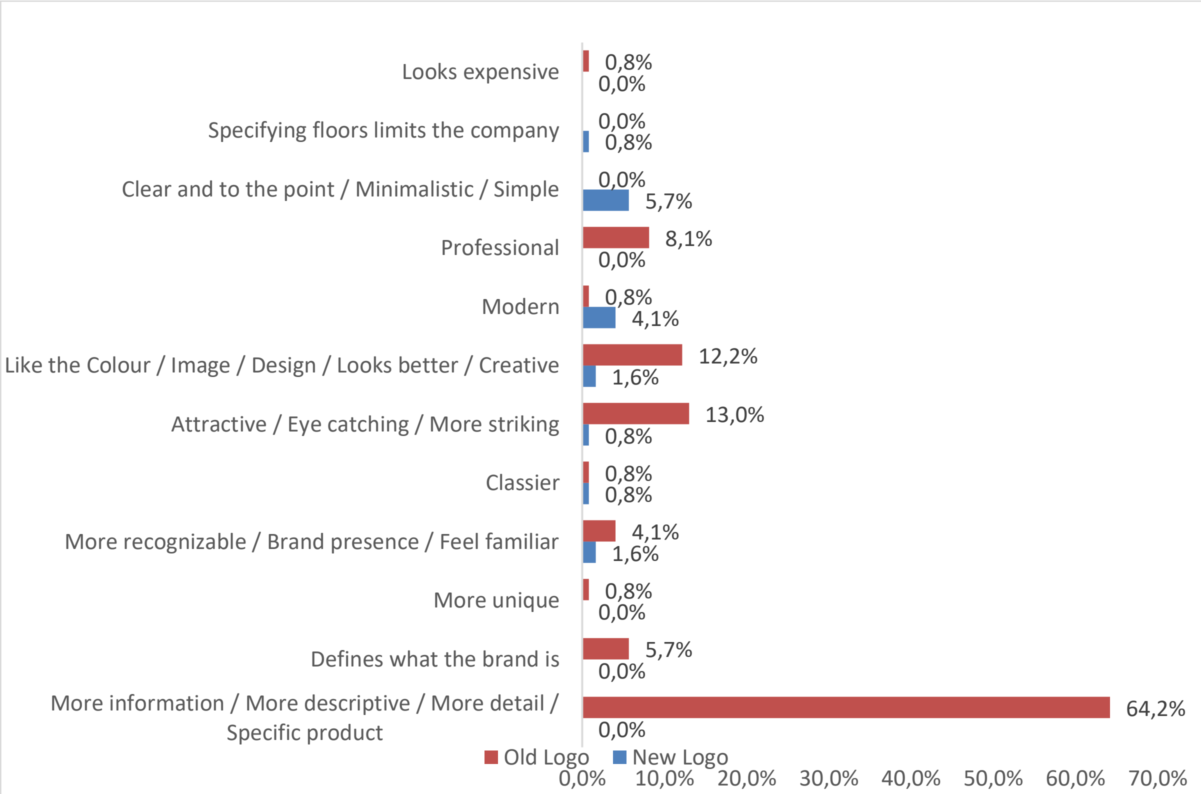
12. Looking at the two acronyms, which do you prefer? *

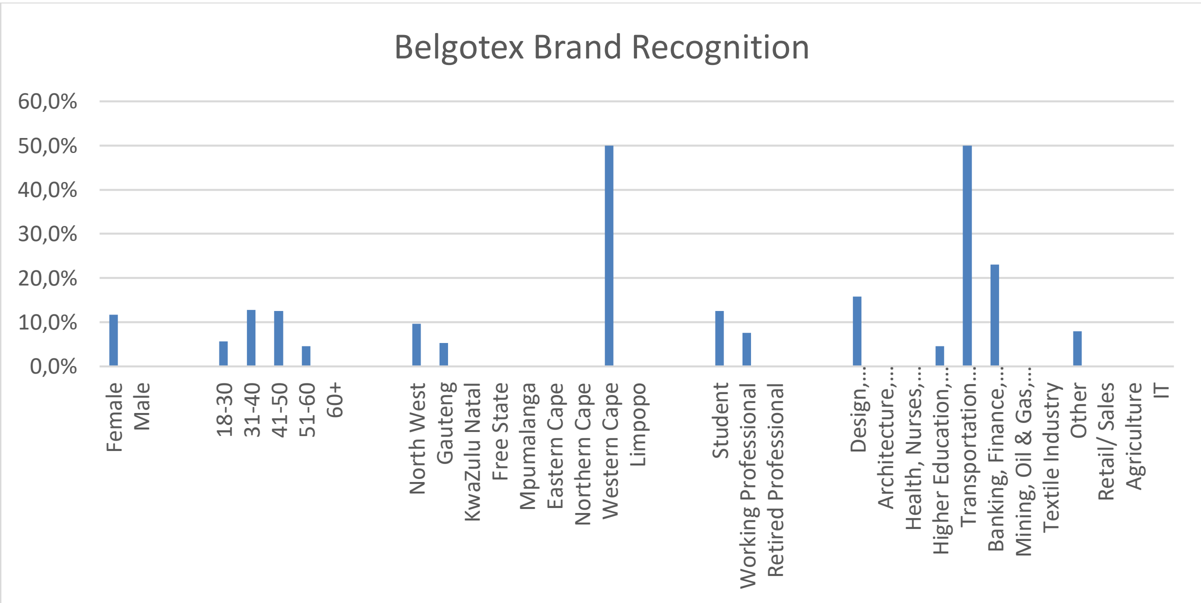
Option 1

Option 2

a) Please give a short reason to your above selection regarding the acronyms?

Statistics from Survey:

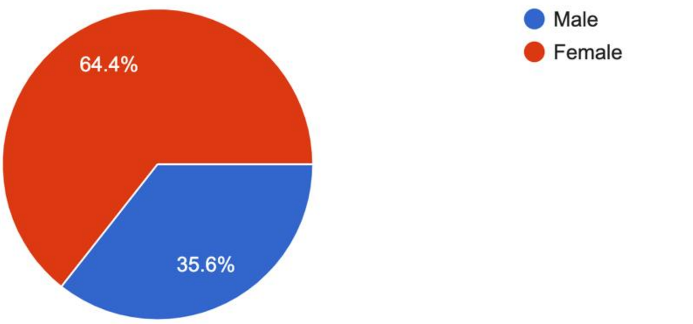




Branding Survey Results

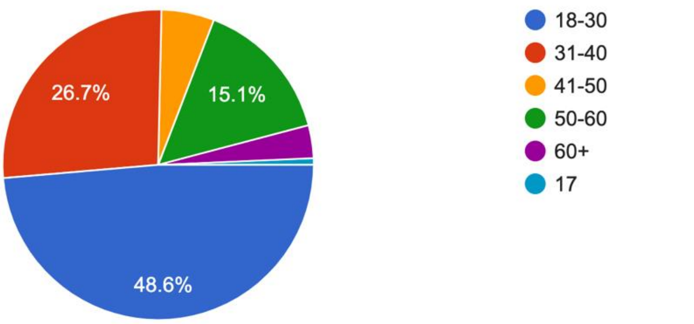
Are you Male or Female?

146 responses



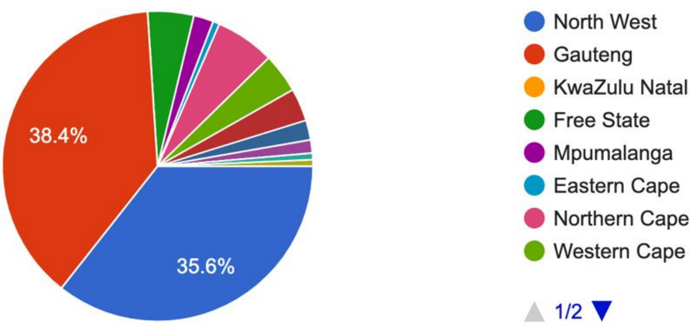
What age category do you fall in?

146 responses



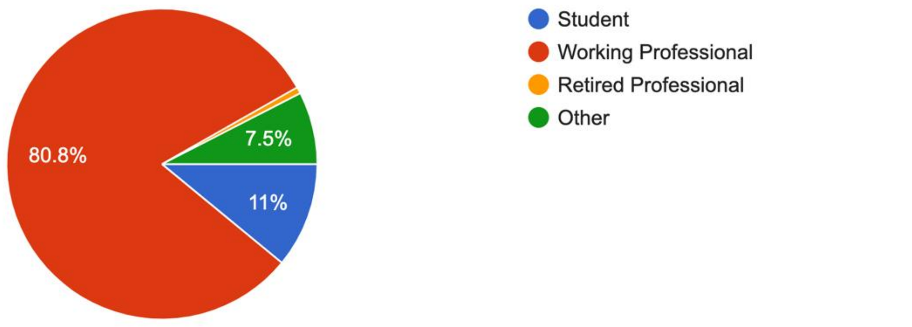
Which Province do you reside?

146 responses



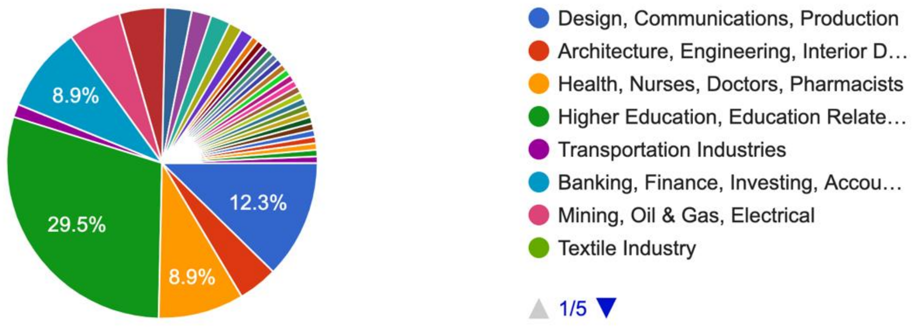
Which one of the following applies to you?

146 responses



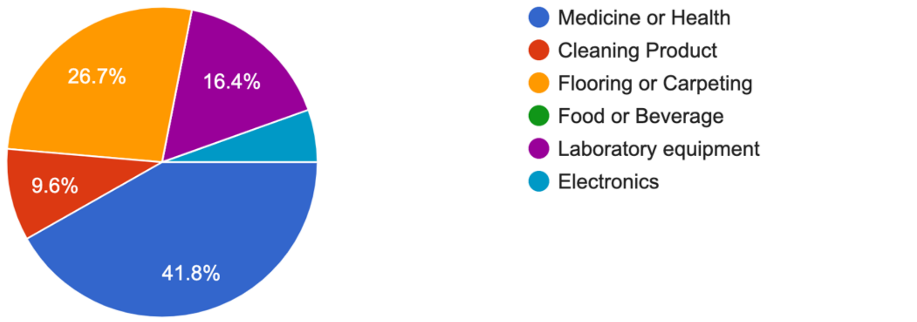
Which industry are you in? (If student, which field are you studying)

146 responses



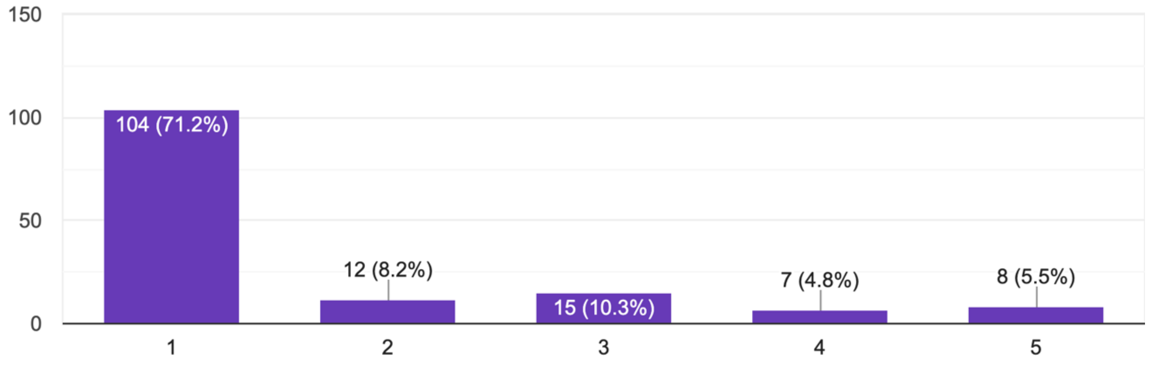
Looking at the logo below, what product would you think it is? (Without researching it)

146 responses



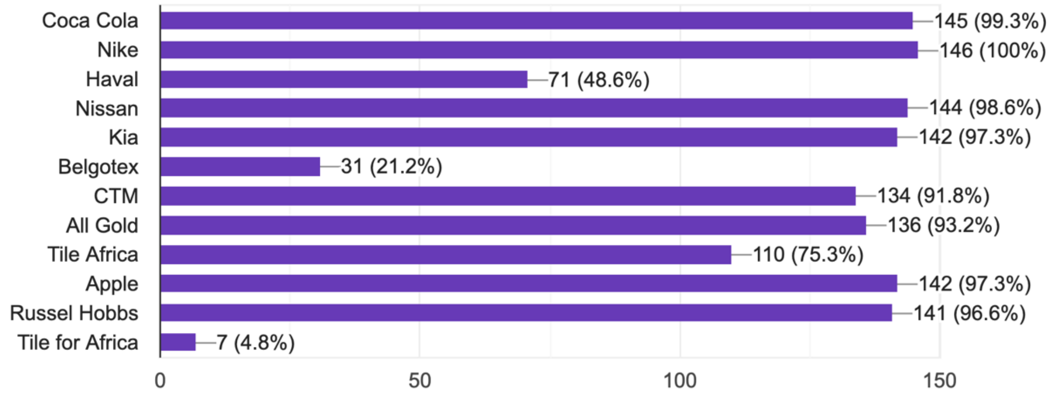
How familiar would you rate the Belgotex brand?

146 responses



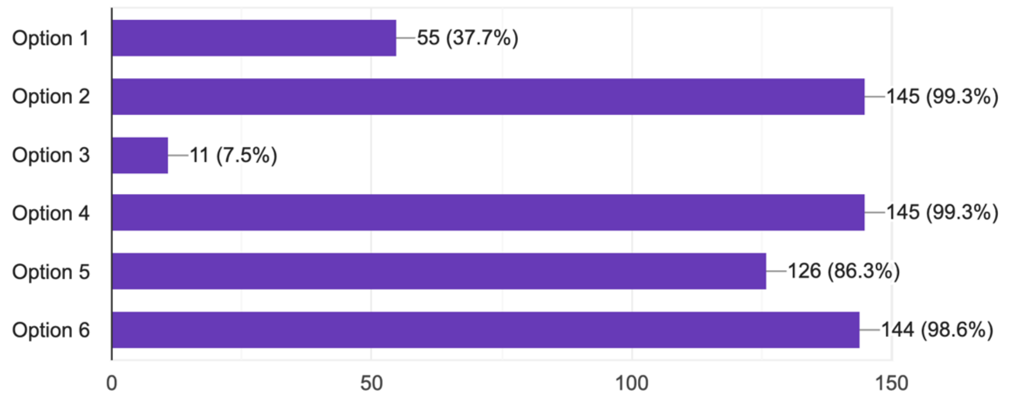
Which of the following brands do you recognise?(Tick all the ones you recognise)

146 responses

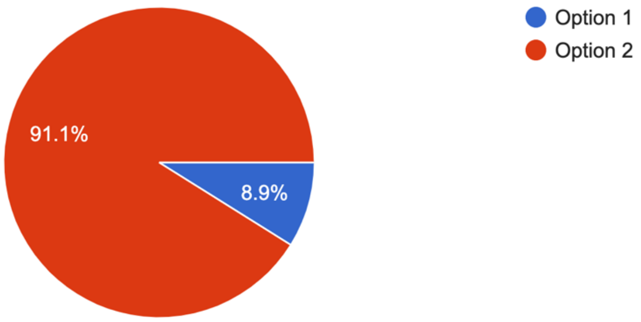


Which of the following Logo acronyms do you recognise?

146 responses



Based on this background and looking at the two logos, which do you prefer?
146 responses



Looking at the two acronyms, which do you prefer?
146 responses