04-2360-2008-1

BATA: STRATEGIC CHOICES (Revised)

INTRODUCTION

In August 2003, Doug Hearns, CEO Bata Pakistan, was considering the efforts necessary to realign Bata Pakistan's manufacturing outsourcing, distribution, and brand strategy in the light of increased local competition and Chinese imports. Doug had joined Bata as CEO in January 2002, with 19 years of experience in the company including 1½ years as Head of Marketing in Bangladesh, and another 2½ years in the same capacity in Pakistan. Traditionally, Bata had catered to the lower middle and middle class market. In 2001, however, Bata decided that instead of competing at the lower end of the Pakistani market, it would concentrate on the higher end, through new fashion brands such as Marie Claire and licensing global brands such as Slazenger and Hush Puppies. This decision entailed increasing manufacturing outsourcing from 17 per cent to 70 per cent, building up a premium retail network including mega stores, and most importantly building up a new cadre of management capable of leading Bata into the twenty-first century.

Doug realized that in the rapidly changing Pakistan shoe industry, key players such as Servis, Shafi and Firhaj and the Chinese exporters would all be realigning their business strategies to compete effectively with each other, and possible new entrants. Thus, it seemed critical that Bata should take some bold decisions to prepare for the strategic landscape ahead.

PAKISTAN FOOTWEAR INDUSTRY

In 2002, Pakistan, with a population of 140 million and about 3 per cent annual growth rate, had a footwear market of above 150 million pairs per year. There were two distinct classes of suppliers to this market. The informal sector with about 80 per cent market share comprised over 17,000 units, each with an average of two employees. Firms in this sector generally paid no taxes, and predominantly sold non-branded shoes through cobbler shops. The formal sector consisted of about 500 small manufacturers each producing from 500 to 40,000 pairs per day. These firms had mechanized operations and distributed through wholesalers or their own outlets. Firms in this sector included giants, such as Bata and Servis. About a dozen firms were involved in exports, but only Servis, Bata, Firhaj, Footlib, EPCT, Shafi and Rajex participated regularly in the major annual footwear exhibitions in Dusseldorf, Germany.

COMPANY BACKGROUND

The Bata Shoe Organisation was originally established by Thomas Bata in 1894 in Czechoslovakia. During a visit to Michigan, he observed the use of assembly lines to mass-produce automobiles at the Ford Motor Company. He saw how all the components were made in different departments and assembled at one place. He took this idea back and started Bata on the same lines, and in doing so revolutionized an age-old industry characterized by individual cobblers who made a complete shoe, to teams of workers who assembled shoes using a conveyor belt. In 2002, Bata, with headquarters now in Canada, was the largest footwear manufacturing and marketing organisation in the world, having sold over 14 billion pairs of shoes over the previous century. The company had a network of 75 shoe factories and tanneries in 95 countries, 6,300 company owned retail stores, 10,000 franchised outlets and another 40,000 independent dealers.

In Pakistan, Bata began with the establishment of a plant in Batapur (about 20 km from the provincial capital of Lahore) in 1942, especially to produce leather boots for the army. In the early 1940s, there were hardly any tanneries capable of producing consistent, quality finished leather. Therefore, the company established tanning operations within the Batapur factory. Doug Hearns, Bata's MD, commented that setting up tanneries was consistent with Bata's policy that, "wherever we went globally, we were fully integrated to feed our distribution".

Bata developed as a vertically integrated firm, with company owned leather tannery, shoe manufacturing, and an extensive retail network. The other vertically integrated firm was Service Industries[1] which was established in 1954 and owned a tannery and shoe factories in Muridke and Gujrat. During the 1960s and 1970s, Service followed the practice of opening a store wherever Bata opened a store. The retail outlets were mostly in rented properties, and both firms benefited from an inefficient property market, which allowed low rents to continue for decades despite double digit inflation. Both brands were extensively advertised particularly during Eid festivals and school openings, and became known for providing reliable quality shoes at affordable prices. By 2001, Bata had invested Rs 430 million[2] in its factories and about Rs 150 million in stores and fittings (see Exhibit 2 for an organisation chart and Exhibit 3 for financial statements).

Smaller non-integrated manufacturers with limited access to quality raw material, reliable distribution networks, low cost capital and imported technology, were unable to compete against Bata and Service. Smaller players lacked access to low cost capital and imported technology available to the larger players in the 1960's. At that time, the government through an extensive industrialization plan provided selected access to capital and licenses which were required for importing equipment. The smaller players neither had the political clout of the Service Group nor the multinational influence wielded by Bata to benefit from government policy.

[1] Servis is used to refer to the combined Service Industries Limited (SIL) and Service Sales Corporation (SSC). SIL was involved in manufacturing and exports, while SSC was responsible for domestic footwear sales.

[2] The exchange rate in 1985 was approximately US $1 = Rs 16, while in 2002 it was US $1 = Rs 60.

An industry expert compared the advantages of being a large player versus a small player:

> The larger players have been able to benefit from, and at times influence, government policy. Recently for instance, import duties on outsoles, which many of the smaller manufacturers need to import since they cannot produce them in-house, was reduced to 10 per cent. But then after six months, the duty was raised back to 25 per cent.
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> At the same time the smaller manufacturers prefer not to grow too large. They want to remain just under the Central Board of Revenue (CBR) screen. They can save on a number of duties, particularly on the 15 per cent sales tax, which is the responsibility of the manufacturer. This allows retail chains, who are sourcing from such manufacturers, to make 20 per cent higher margins than is possible at stores owned by Bata and Servis.

Throughout the six decades since its establishment in 1942, Bata remained the country's largest shoe manufacturer, with a share of 11 per cent of the 150 million pair shoe market. In 2002, Bata had two plants, 350 retail outlets, over 3 thousand employees, sales turnover of Rs 2.3 billion, and profits before taxes of Rs 79 million. Bata produced 14 million pairs and procured another 3 million from outside suppliers. Bata's closest competitor was Service with local sales of 5 million pairs.

DEVELOPMENTS DURING THE EIGHTIES

A major expansion in the leather and footwear industries took place during the 1980s. Remittances from migrant workers in the Middle East, together with the Afghan war, resulted in a 6 per cent annual GNP growth and increased consumer spending. The increased market size was accompanied by a threefold increase in shoe retailers and this catalyzed a threefold growth in the number of footwear manufacturers. The number of tanneries tripled during the decade from 180 to 509, making quality finished leather widely available to footwear manufacturers. The increase in tanneries was a direct consequence of increased leather exports, caused by the widespread closure of tanneries in Europe resulting from ecological concerns. Changes in the global leather industry provided local tanners access to inexpensive used equipment and technology from their international customers. Furthermore, both tanners and footwear manufacturers gained from government deregulation which decreased tariffs on imported equipment and raw material and gave increased access to capital. Incentives for the manufacture of leather garments and footwear were provided, including duty rebates and duty-free import of machinery, and decreased rebate on finished leather exports. Many tanners set up leather garment and footwear stitching units, and by the end of the decade 60 per cent of the tanneries had integrated forward into stitching units. By the late 1980s, the leather industry had developed to become Pakistan's second largest export earner after textiles (see Exhibit 1 for data on international trade in leather products).

The increase in tanneries also increased the concern about the negative environmental impact of effluents from tannery operations. In response to concerns from the Government of Pakistan as well as from Bata headquarters in Canada, Bata acquired a tannery in

Sheikhupura on the outskirts of Lahore. In 1998, tanning operations were transferred to the fully owned subsidiary, International Tannery & Industries (ITI). ITI had a capacity to produce 700,000 square feet of finished leather per month; it was responsible for producing finished leather for the parent company as well as for exports (see Exhibit 4 for financial statements of ITI). In 2000, after having accumulated a total loss of Rs 104 million, Bata divested its holdings in ITI. According to Doug, "ITI was an exercise in over enthusiasm. A huge infrastructure was built without any buyers. We were operating below capacity."

In 1951, Bata had established a plant to make rubber tires and bicycle tubes as part of the Batapur factory. In 1987, Bata decided to discontinue production of tires and tubes, due to continued losses over the last several years.

A manager familiar with the decision commented:

> Bata was facing price competition, and decided to sell the plant to an ex-employee in the hope that costs would be contained. Unfortunately quality suffered, and in order to protect its brand name, Bata decided to quit the tire and tube business. It was a big loss to the company and quite unjustified.

CHALLENGES DURING THE NINETIES AND BEYOND

Increased competition and changes in taxation and tariff policies during the nineties resulted in a gradual decrease in profits, and by 1998 Bata reported a loss of over Rs 66 million in operating profit. Bata responded to the new challenges by deciding to gradually move out of the lower end market towards the premium segment. As a result, Bata introduced several new local and international premium brands, rationalized its manufacturing by increasing outsourcing and investing in strategic supplier alliances, upgraded its retail network by investing in company owned stores and reducing dependence on franchise stores and wholesale trade, and invested in human resources particularly, merchandising.

Doug Hearns commented on events in the nineties and Bata's response to them:

> The media revolution in the 1990s resulted in increased awareness of global brands and demand for greater variety. We responded by increasing the number of stock keeping units (SKUs) from 400 to 2,200. Production costs started increasing, productivity went down, and defects went up because every time there was a variation in product design, we had to go through a new learning curve. As a result, we started outsourcing both complete shoes and stitched uppers. In 1998, the biggest decision we took was to bring down the number of SKUs from 2,200 to 1,000. In 1997, the government introduced a 15 per cent sales tax which practically applied only to the formal sector. Our profits plummeted, and we decided that we could not compete with the non-tax paying cottage industry and so we had to come out of the lower end of the market.

During 2000-2003, tariff duties on imported shoes dropped from 65 per cent to 25 per cent and were expected to decrease further to 5 per cent by 2005. This, together with the growing presence of China as a major player in the global footwear market, resulted in the import of large quantities of inexpensive Chinese shoes into the country.

An industry expert remarked:

> Because of corruption in customs, goods being imported are typically under invoiced. This results in effectively reducing import duties to 8 per cent rather than the official 25 per cent. At the same time, upstream industries producing PVC granules (raw material) continue to be protected with duties of 25 per cent.

Bata’s policy was to adhere to all government rules and regulations and honour the commitments made to its labour union. At times this resulted in higher costs, bureaucratic procedures and delayed decision making.

A manager commented:

> In dealing with incidents requiring disciplinary action we are required to conduct a complete inquiry. At times this can drag on. The worker can claim to be sick and the case is delayed. This is in sharp contrast with the cottage industry, or in smaller units, where the employer can just fire a worker. Our workers consist of permanent employees and we follow all government wage laws, while cottage industry uses mostly contract workers on whom few if any government rules apply.

A manager who had served in the company for several decades commented:

> Bata traditionally had encouraged the retention of loyal employees, with the result that most personnel remained at Bata until retirement; most senior managers had served for over 20 years. Bata provided a wide range of employee benefits including an extensive housing colony in Batapur, a provident fund to which both the employee and the company contributed 7 per cent of their salary, a gratuity scheme, an annual bonus, subsidized canteen facilities and a children’s scholarship programme. Since the early 1990s, Bata has gradually allowed the number of employees to decrease, through a process of natural attrition as employees retired. Between 1990 and 2002 for instance, the number of employees in the Batapur plant decreased by 30 per cent.

Commenting on future strategies at Bata, Doug remarked:

> The future is no longer in traditional labour intensive manufacturing. We will continue to do specialized manufacturing in-house but gradually increase the level of outsourcing to cater for up to 70 per cent of our sales. We will focus on new Air Molding Injection Machine technologies. Traditional manufacturing requires 27 persons per conveyer, while the newer technologies only require two people.

> Our priority is to grow our distribution and marketing. We will continue to do specialized manufacturing in-house and gradually increase the level of outsourcing. But no matter what, the real business is in distribution.
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> For instance we are doing well with our Sandak shoes for women, but there are opportunities to move into women's fashion shoes. Merchandising is at the heart of our business. The merchandisers need to develop the shoe line, and become buyers procuring from local and global sources. We want to develop a cadre of new managers who are dynamic and goal oriented, and who can take on the responsibility of making a quarter million dollar global outsourcing decision without having to constantly check with headquarters.

Doug commented on the need to continuously develop new managers:

> It used to be that the average age in our merchandising department was 50. Now it is 30. We want to develop a new cadre of managers, particularly in merchandising. We need to groom dynamic young individuals who are goal oriented, self-starters for senior general manager positions in 5 to 10 years and who are ready to take on international assignments in 7 to 12 years.

An industry expert commented on Bata's strategy:

> As a global strategy, it seems Bata is turning to specialized manufacturing, and global sourcing arrangements. Historically for instance a Bata plant, such as the Batapur plant, would manufacture the whole range of shoes. In the future, with lower barriers to trade in-line with WTO, Bata might decide to promote regional specialization, for example, Bata could have its Indonesian and Thai plants, which have easy access to rubber, specialize in canvas shoes, and its Chinese plants specialize in synthetic leather shoes.
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> Bata's strength is its extensive network of retail outlets, which it built over the last century. Bata's other strength is its brand name. However, the brand does not have a premium image. Hence, Bata has developed global alliances with Hush Puppies, Caterpillar, and Echo to extend its product range into the premium segment. This was particularly important to defend its position in the highly competitive and demanding Italian and South American markets. Finally, Bata invests in its human capital, using its global resources to provide continuous training to affiliated companies in different countries.

BRANDING AND MERCHANDISING

In 2002, Bata's product line included about 1,500 SKUs. Bata marketed these SKUs under international brands licensed from the parent company. Some of these international brands which had been introduced in the early 1980s and even earlier included North Star, a unisex brand of joggers aimed at teenagers; Power, a brand designed for specialized sports footwear such as football, tennis and cricket; Bubble Gummers, which were fun shoes for children; Marie Claire, fashion shoes for women; Sandak, trendy low-cost plastic shoes worn as casual footwear in the summer; and Safari casual footwear. Over the years, new lines were introduced within each of the main brands, such as Glow shoes, Light shoes, Compass, and Music shoes within Bubble Gummers. Bata also increased advertising of its Hawaii slippers, Emozioni line of women's fashion footwear, and Toughies, a school shoe brand.

In 1999, Bata obtained the right to sell the Hush Puppies brand, while in 2001 Bata obtained the right to sell Slazenger, (sportswear), King Street, (men's formal dress shoe), and Weinbrenner
(men's outdoor casual shoe). By 2002, Bata had discontinued the North Star, Safari and King Street lines.

Discussing Bata's policy on branding, Doug remarked:

> Bata's aim is to cater to the middle and upper middle class segments. Our core customer is a family with four children. We do not want to compete head-on with Servis, which caters to a somewhat richer segment. During the late 1990s, Servis had a strong brand Calza in the PU slipper segment, and Cheetah in joggers. With help from our development centre in Padova Italy, Bata developed Plaza, which was a house brand aimed at competing with Calza. Plaza was a great success and captured a major market share of this subcategory.
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> We then looked at our jogger brand Power. Our merchandising department said that Power could not sell as it was just not competing with Cheetah. The management decided to take a period of three years from 1999 to 2002 to develop a new product range. At the same time, with the help of our design consultant in Taiwan, we obtained training in new technology and designs. We are importing complete finished shoes, and in 2003 are launching Power with a variety of product lines. In the meantime, we introduced the Slazenger brand to compete against Cheetah.
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> We had expanded from 4 brands in the early eighties to 40, and now we are coming back to 5 global brands, i.e., Bata, Marie Claire, Power, Bubble Gummers and Weinbrenner, in addition to our local brands such as Sandak and Hawaii. We have decided to discontinue several brands including Emozioni in women's fashion, King Street in men's, and North Star in joggers. In the future we will go for global brands, using BIG (Bata International Group). These could include Barbie a fashion shoe for young girls, Hush Puppies for men, and Dr Scholl's for women.

The merchandising department acted as a liaison between the sales, factory production, purchasing and advertising departments. The merchandising manager acted both as a merchandiser and brand manager. In 2002, the department had three brand managers, one each for Hush Puppies, sports shoes (Slazenger, Power), and women's shoes (Marie Claire), and also four merchandising officers, one each for other shoe categories such as men's formal shoes, children's shoes, PVC, and Sandak. Another position being considered was for non-footwear items such as clothing.

RETAIL DISTRIBUTION

Bata marketed shoes through three main distribution channels; retail, wholesale, and government and export. In 2002, the retail department operated through 256 company owned stores, 25 K-scheme stores and 91 agencies. A company owned store was owned, managed and run by company employees. Typically, shoes sold through retail outlets carried a 42 per cent gross margin. Expenses averaged 28 per cent of sales and included fixed salaries, commissions, utilities and rent. Store managers received about 20 per cent of their pay as fixed salary and 80 per cent in commission.

An agency was similar to a company owned store because it carried only Bata brands. Bata provided shoe racks and some other furnishings. In addition, Bata owned the inventory in the store. However, the agency (franchisee) was responsible for all operating expenses. Bata paid the agency a 14-16 per cent commission on each pair of shoe sold. Additional expenses averaged 12 per cent, which included the cost of insurance and other commissions. Finally there were K-scheme stores, which were started in 1994. These were leased stores, in which the inventory and utilities plus rent were the responsibility of the company. However, store managers and salesmen were ex-Bata employees and received commissions rather than salaries.

Commenting on the different distribution channels, a manager remarked:

> Bata has maximum control in its own company owned stores. We provide training and service levels are high. However, union rules such as overtime apply, which affect the store timings. Service levels are generally poorer in agencies. Salesmen get low salaries, and there is high attrition. Every time we go in for training, we find a new set of people to be trained. Promotional activities are also less uniform. Agencies often hurt the Bata image. We took serious action recently when we found an agency with dusty displays. At times, an agency with a good location will try to blackmail us, by threatening to become an independent shoe store.
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> We have recently revised our policy. Now the agency is also responsible for expenditures on store fixtures and racks. This was done to increase their level of commitment and ownership. Unfortunately, shoe franchising in Pakistan mostly attracts only the uneducated and unskilled investors. Selling shoes is a physically demanding job; working hours are long, and there are no breaks. In some localities markets remain open till 11 p.m.
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> The idea of the K-scheme was to utilize ex-Bata employees who had an understanding of the product and company values. It was a political decision to overcome the staffing and open-hours problem, and to provide some support for excess employees.

Another manager remarked:

> Success in retail comes from personal commitment. The store manager must be physically involved. In company owned stores, district managers who are generally responsible for about 15 stores, make sure that they visit each store at least once every two weeks. Agencies on the other hand, often have absentee owners. The store manager in an agency may be an uninterested relative who lacks commitment. The investment is low. If the franchisee had invested Rs 1 million in stocks, another million in the location, and Rs 100,000 in training, then you would see him pushing stock turns.
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> McDonald (franchising) works because once the franchisee has invested in the building and fixtures, he is stuck with it. There is no alternative use for the building. He must make the business profitable. He only has to manage about a dozen SKUs and is provided detailed standard operating procedures (SOPs). Our franchisees work with hundreds of SKUs and seasonal changes. And they always have the option of converting their store into an independent store, and buying wholesale. Interestingly, while franchising has not been tremendously successful in Pakistan, Bata's franchise system works very well in Italy, for instance.

In 2002, Bata employed 900 retail sales employees and another 600 indirect retail sales employees. During 1999-2002, Bata increased the number of company owned stores from 160 to 256, while the number of agencies were decreased from 100 to 91, and K-scheme decreased from 60 to 25.

For purposes of merchandising and setting sales targets, Bata divided retail outlets into four major categories: A, B, C, and D type stores. New lines of premium products (SKUs) were launched through category A stores, while economy products were launched through category C stores and then later through B stores. SKUs which were to be discontinued after having remained in retail stores for a few seasons would then be pushed through the wholesale department.

Category A stores catered to a higher class of customers who preferred premium shoes. Most of these stores were located in the main fashionable markets of major cities. For instance, there were six such stores in Lahore in Liberty Market, the Mall, and Defence Society. These stores carried the complete line of SKUs, but inexpensive items, such as slippers were stocked in low quantities, while premium brands such as Hush Puppies and Slazenger were carried in larger stocks. Finally, some stores such as the Lahore Mall store might cater to the complete family, while another, such as the Lahore Liberty store might cater only to women and children.

Category B stores catered to middle and upper-middle class customers, while category C stores catered to the low and lower-middle classes. Category C stores did not carry premium brands, and stocked larger quantities of rubber slippers and PVC slippers. Table A below shows a comparison of each store category.

Table A

Profile of Typical Retail Outlets by Category

	A	B	C	D
Annual Sales (Rs)	16.2 m	6.7 m	2.5 m	2.1 m
Size in square feet	2200	1450	800	700
No. of SKUs	1250	1040	960	635
No. of outlets	22	41	277	32
No. co-owned	22	37	208	16

Bata had also developed a series of specialized concept stores within the category A outlets. In 1984, Bata introduced a store devoted exclusively to children's footwear under the name, Bubble Gummers, and by 2002 the number of such stores had increased to seven. In 1989, a Power store was established in the capital city of Islamabad. The store stocked sports goods, clothing, and game accessories in addition to footwear. However, no exclusive Power stores existed in 2002.

WHOLESALE DISTRIBUTION

The wholesale department operated through two main channels; registered dealers who bought shoes from company owned depots, and distributors. In 2002, Bata had 23 company owned depots serving 550 registered dealers, in addition to 7 distributors who sold to a large number of unregistered dealers. These dealers (registered or unregistered) were independently owned shoe shops, which stocked several brands in addition to the Bata brands. Depots were staffed with company employees, and were located in outlying areas that could not be conveniently serviced by company owned stores and agencies. These depots served registered dealers in their geographical area.

Shoes sold through the wholesale department usually consisted of lower priced shoes. Thus in 2001, the price of an average shoe sold through wholesale was Rs 85 compared to Rs 190 through retail. Stock turns, defined as annual sales divided by average inventory level (in retail stores or in the company owned depots), was much higher in wholesale than in retail. Overall stock turns for the company averaged 4, while the average in retail was 2.5. Bata's balance sheet showed a sharp increase in trade debt, which consisted mainly of credit to distributors. Trade debt increased from Rs 114 million in 1998 to Rs 330 million in 1999, and Rs 674 million in 2001. In 2002, Bata adjusted its earnings from wholesale sales, to reflect the return of unsold inventory. As a result, wholesale sales in 2002 were Rs 455 million compared to Rs 821 million in the previous year.

A manager commented:

> Wholesale volumes are high, but margins are low. Traditionally, Bata gave higher commissions in wholesale since they, unlike agencies, were responsible for

> carrying the stock. In the past we gave four weeks of credit, and if the distributor paid on time, we gave an extra discount as incentive. However, in the future we plan to increase the percentage of goods sold on cash to 80 or 85 per cent.
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> As a general policy we now plan to get out of the price sensitive wholesale market, and concentrate on marketing premium brands through company owned stores, and selling branded products via the wholesale chain.

MANUFACTURING

Footwear manufactured by Bata could be grouped into six broad categories, based primarily on the nature of manufacturing technology and material used. The production technologies varied from processes like 'lasted stuck-on sole' which involved labour intensive stitching, to the complex, capital intensive 'direct injection' process for producing joggers. Data on unit sales by category is given in Exhibit 5.

In 2002, from 1,500 SKUs about two-thirds (representing 17 per cent of total pairs sold) were procured from outside vendors, known as Associated Business Units (ABU). The decision regarding whether a particular product line would be outsourced was based on several considerations. SKU's involving specialized equipment, higher volumes, and stable demand were sourced in-house, with a 12-month planning cycle, compared to a 6-month planning cycle for outside orders. Plans were made for two seasons; winter which lasted from October to March and summer which was from April to September.

The merchandising manager, whose responsibilities included the planning and vendor selection process, explained:

> We are now (in June 2003) planning for the 2004 summer season. In May 2003 we had already provided the Bata production department with our 2004 summer requirements. We are now in the process of working with vendors to finalize SKUs which will be outsourced, and orders should be finalized by December 2003. Internal production involves longer lead times. Specialized direct injection molds for outer soles may need to be imported from Italy or the Far East, which can take up to eight or nine months, since it involves prototyping and multiple sizes. ABUs usually use locally manufactured molds which require only two months to procure.
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> When a prospective supplier approaches us, or if we hear of a particularly promising manufacturer, we ask for a representative sample of shoe products. We examine the quality of the shoe, the workmanship and the materials used. We then visit the factory or workshop to evaluate the equipment and worker skills. We try to match ABU skills and specialization with our SKU needs. For instance, it would be unrealistic to give a premium shoe to an ABU who has low-skilled workers and no assembly line capability. In the past it used to be a '*mela*', (fair) where every supplier was trying to get as many SKUs as possible. This led to favouritism and malpractices. In the late 1980s, the merchandising department was reorganized; some personnel were asked to leave, and new MBAs were hired to streamline the process.

Doug commented on future strategies regarding suppliers:

> The ABU department is developing a screening system to evaluate applications from suppliers. The problem is that each supplier tries to get into as many lines (SKUs) as possible. In future we will work with specialized suppliers and develop them. We have already reduced the number of ABUs from 150 in the late 1980s down to 40 now. We hope to bring this number down further to 15 serious players. We pay a high premium to retain good suppliers. Bata's policy is one of providing good quality (to its customers). We help our suppliers by providing them with technical assistance, expertise and training so that they can produce good shoes.

According to an executive in the production department:

> It is the volume and price that determines whether to manufacture in-house or outsource a certain line of shoes. High priced men's shoes do not have a large market in Pakistan. Although Bata caters to the lower to middle class segment, we have to carry some high priced shoes, particularly for our shops in richer localities. To fulfill this requirement Bata outsources these high priced shoes. We may also outsource to meet peak demand.
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> We prefer to produce women's shoes in-house. However, we prefer to outsource complicated and trendy fashionable shoes because of the small volumes involved: small volumes just increase costs. Similarly, we prefer to produce children's shoes, particularly our popular line of Bubble Gummers, in-house except for small volume lines. But even for many of the shoes we produce in-house, we may procure the complete stitched upper. Thus Bata imports stitched uppers for joggers and school shoes from China.
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> Hawaii slippers, PVC slippers and joggers are mostly kept in-house because we have invested in equipment and have to use our labour. If we were to outsource, the labour would be free, and the machines would not be utilized to their full capacity. Once someone is employed at Bata, he or she is here forever. We don't fire people just because business is not doing well or they are causing extra overheads.

By 2002, Bata procured finished leather from several leading tanneries, and prepared the stitched leather uppers in-house. However for premium quality shoes involving expensive leather, Bata procured complete leather stitched uppers from leading leather groups such as Mohammad Shafi, and also imported uppers from China.

The production of sports joggers involved direct injection equipment costs which could vary from Rs 5 to Rs 40 million. The technology was complex and involved proprietary knowledge which was not widely diffused. The production of PVC slippers involved the use of injected plastic technology and equipment. By the late 1990s, quality raw material for PVC was widely available, and a few new firms had developed specialized expertise in the handling of equipment and chemicals required for PVC production. These firms, due to their scale economies, had become low cost producers and were the leading suppliers in this product category not only to Servis but also to the wholesale market. However, Bata had not moved out of PVC production yet, and was still producing slippers that were priced significantly higher than those available elsewhere.

An executive added:

> We need to manufacture internally to maintain exclusivity, especially for our major brands. For instance, in our Sandak PVC line, even if we do outsource the direct injection process, we still maintain control of the specialized raw material, and do the final specialized two-colour treatment internally.

COMPETITION

Servis

The Servis group established a footwear manufacturing plant and tannery in the 1950s to produce leather shoes for school children, leather boots for the army, and to export canvas shoes to Europe. In 2002, Servis was estimated to have sales of Rs 3.2 billion which included domestic sales of 1.75 billion, exports of Rs 840 million, and tire and tube sales of Rs 650 million. The company sold 5 million pairs a year through wholesalers and through a chain of 236 company owned outlets and 24 franchised retail outlets. Servis outsourced manufacturing to 46 suppliers, and owned its own tannery and plants in Muridke and Gujrat. The workforce had steadily increased from 4,875 to 5,642 during 1998-2002.

Service Sales Corporation (SSC) was set up as the marketing and distribution arm of the Servis group for footwear sales to the domestic market. SSC procured 70 per cent of the 5 million shoes it sold from Service Industries Limited (SIL). Compared to Bata, Servis carried a somewhat higher priced range of shoes, including the premium Don Carlos and Cheetah brands, which were produced in-house. In late 2003, arrangements were made to carry the premium Nike brand in Servis stores.

Shahid Husain, CEO of SIL commented:

> Over the years Servis has developed the ability to design and manufacture premium shoes, and we do not want to lose this competence. China gains through its massive scale economies. Their sheer size allows them to produce large varieties at economical prices. They are certainly very competitive in artificial leather shoes, and we do sell some imported leather look-alikes under the Servis label in the Rs 500 price range. However, since China has no domestic leather industry but depends on imported leather, it is currently not a threat in the premium leather shoe segment. We might save 10-15 per cent by procuring shoes in the Rs 1,000 segment, but it is not worthwhile, given the long lead times and cash payment requirements. Our response to the Chinese threat is to go after export markets because only those who have large markets and volumes will survive.

> About a third of our sales come from export markets. Like Bata we too feel the temptation to decrease our manufacturing base and increase our level of outsourcing, particularly after 1997 when the 15 per cent GST (sales tax) was applied selectively to the formal sector only, and profits of both Bata and Servis plummeted. But this (a decreased manufacturing base) would hurt our ability to export. So instead of contracting out our operations, we have decided to further expand, diversify, and invest in new technologies and processes.

Concerning Servis' future manufacturing strategy Shahid remarked:

> The old Bata and Servis factories were designed as vertically integrated operations producing a wide variety of shoes. Those days are over. Each unit has to be specialized. Eventually, as in China, there will be units specializing in the production of outer soles, in specialized mold making, in inner soles, in heels and in all the dozens of components that go into a shoe. Each unit must have the economies of scale and be able to experiment and innovate in new materials and designs. There is a need for markets where components are readily available, thus reducing raw material inventory and product development times. At the end of the process, there will be factories that are essentially assembly plants. We will need to retool our manufacturing, and this needs to be done rapidly, in the next two to three years, if we are to remain competitive.

Shafi Group

The Shafi Group began as a trading house in hides and skins in 1940, and by 2002 it had eight manufacturing units including four tanneries, two leather garment units, one footwear unit, and units specializing in leather/ textile chemicals and in Information Technology. The group produced about 50 million square feet of finished leather annually, placing it amongst the largest leather manufacturers in the country. Annual sales were over Rs 4.5 billion. Companies in the group had arrangements for technical collaboration with leading Spanish and German firms, and had developed a reputation for high quality in various specialized leather products. Units in the group procured most of the skins and hides locally, and had established long-term arrangements with suppliers.

In 1998 Shafi (Pvt.) Ltd opened a 1,400 square foot shoe retail store in Lahore under the brand name of Urbansole. In 2000 and 2002, two additional, somewhat smaller, stores were established in Karachi. Muhammad Ali, CEO of Shafi (Pvt.) remarked:

> Urbansole carries men's leather shoes targeted to the young professional. We are not family stores like Bata and Servis. Our shoes average Rs 1,250 a pair, which is somewhat lower than Hush Puppies at Rs 1,350, but considerably higher than Servis at Rs 360, and Bata at Rs 250-275 a pair. Currently 70 per cent of the shoes we carry are procured from our own shoe factory, but we are considering the possibility of expanding our range through increased outsourcing. China is not much of a threat right now in our price range, but might become a threat by 2005.

Umer Group and Firhaj Footwear

The Umer Group started off in the 1960s in trading and ship-breaking, and by 1980 established itself in the production and export of cotton yarn. By 2002, the group had annual sales of over $135 million with units in textile spinning, leather tanning (established in 1986), power generation, construction, leather garments and leather footwear (established in 1989, as Firhaj Footwear). In 1995, Farrukh Salim took over as head of Firhaj from his uncle. Farrukh was then 22 years old and had just returned after spending two years in the UK studying footwear technology. The same year that he returned, Firhaj entered into an arrangement with the US-based Wolverine, with an exclusive license to manufacture and distribute the premium Hush Puppies brand in Pakistan. Wolverine was the third largest footwear company with annual sales of US $827 million in 2002, after Nike with sales of US $10 billion and Timberland of US $1.2 billion. Firhaj was required to pay a fixed royalty on revenues, ensure stringent quality standards, and ensure that all stores selling the brand carried a specified product range, and adhered to standard pricing, decor, and store layout.

By 2002, Firhaj had 250 employees with sales of over Rs 300 million, and it distributed the Hush Puppies brand through 10 company owned concept stores in major cities including Lahore, Karachi, Faisalabad, Multan and Sarghoda. Each store had a display area (in addition to back office storage space) of 500 to 700 square feet, and carried about 100 SKUs. Firhaj also had arrangements with 30 independent franchisees in additional cities, which might typically carry about 50 SKUs. Finally the Bata Organisation had global arrangements with Wolverine to carry the brand, and as a result Hush Puppies was stocked in 27 Bata stores in Pakistan, with plans to gradually expand to about 50 Bata stores. Farrukh commented:

> Hush Puppies is a premium brand, and its manufacture requires exceedingly high levels of skills and specialized equipment. Such a shoe can involve up to 170 operations, many of which require ‘hand sewn on last’ construction. There are no short cuts in this business. I myself put in about 12 hours every day, and am trying to develop a team of professional managers, so that I can spend more time on strategic issues.
>
> Distribution is the key for success in this business. We have to ensure that our product range matches what the customer wants, and we need to manage our relationship with franchise partners. Finally we have to manage our relationship with our international partners. They would like to standardize across the globe, in terms of product range, prices and store decor, while we need to make sure that they understand how our local needs and tastes may at times require a different product range and prices. We are also launching our own local Taurus brand for the economy segment to complement the more expensive Hush Puppies and Caterpillar brands.

Women’s Fashion Shoe Stores

A large number of stores such as Ehsan Chappal House, Stylo, Metro, Milli, and Catwalk specialized in women’s fashion shoes. Leading stores generally introduced about a thousand new designs each for the summer and winter seasons. Since each design was available in multiple colours and sizes, a large store carried about 20,000 pairs in stock. Sometimes a new design was introduced with as little as one pair to test the market; the design was closely monitored for two weeks. Replenishment cycle time could be as short as 7 to 10 days. Popular designs were rapidly imitated by second and third tier stores, and thus leading stores had an average product life cycle of only 30 to 45 days. According to an industry insider, over half of the new designs introduced failed, and had to be sold at considerably discounted prices. Clothing designs and cloth patterns and colours, as well as magazines and foreign movies affected fashion shoe design trends. Thus a wide-toe shoe would go with a wide-bottom trouser, or a floral theme in print fabrics would popularize shoes with floral designs. Similarly, a popular Indian movie could start a trend towards bright orange or magenta shoes. Traditionally, both Bata and Servis had found it difficult to compete in the women's fashion shoe segment.

China

During the late 1990s, China emerged as the largest player in the global shoe industry (see Exhibit 1). Most of the shoe production areas in China were concentrated in the eastern coastal regions. There were over 7,200 shoemaking enterprises of significant scale nationwide, employing over 600,000 people. Of these, over a thousand had annual sales of over US $600,000. Total national shoe production was 6 billion pairs, which represented 5 per cent of the world production. In 2001, China exported 4 billion pairs of footwear worth US $9.7 billion.

Doug remarked:

> You can buy medium quality Chinese artificial leather shoes at an f.o.b. price of US $ 2.50. Their productivity is several times higher than ours. Over here everyone is looking at their watches half an hour before 5 p.m., and it's a stampede at the gate when the siren sounds. Furthermore, it takes us two weeks to freeze production, while they just need two hours.

Another industry expert remarked:

> In China a shift might start at 7:30 in the morning and end as late as 11:30 at night, with a lunch break of 1½ hour, and a 1-hour dinner break. Sunday is a working day, and workers get a 10 days holiday around the Chinese new year. Workers live in factory owned dormitories. However, in factories producing for international brands like Nike, the situation is different with overtime and shorter working hours. Overheads are minimal, without the army of personnel which we (in Pakistan) need in order to handle our complex government regulations.
>
> With current import duties of 25 per cent, a shoe with a cost and freight (C&F) price of Rs 100 results in a landed cost of Rs 137. Bata and Servis can barely remain competitive with this kind of competition. If duties were to drop to 10 per cent it would no longer be possible for local firms to compete.

Chinese shoes were becoming widely available in the major cities in Pakistan. In Lahore's busy Panorama Centre on the Mall, some 25 stores, each averaging about 400 square feet had started selling joggers imported from China with prices ranging from Rs 800 to Rs 2,000. Some of these were exact replicas of brand name shoes such as Nike but at a fraction of the cost. Street peddlers were selling Chinese made joggers for Rs 350 with quality comparable to a Rs 800 Servis Cheetah brand. Industry experts felt that while Chinese imports threatened the men's economy segment, they did not pose a threat to the women's fashion shoe or the men's premium segment. Since Chinese shoes were imported in bulk by the container, they were generally surplus B grade shoes, which provided little variety and design.

STRATEGIC OPTIONS

Doug realized that he needed to evaluate the major options in each of the major functional areas. These included:

1. Manufacturing - Outsource product lines locally and internationally (given Bata's
1. plan to increase outsourcing from the present 17 per cent to 70 per cent of sales).
2. Distribution - Mix of franchised versus company owned stores, and also mix of retail versus wholesale channels.
3. Brands - Mix of economy and premium brands, and also of men's, women's and children's shoes.

The above options needed to be evaluated in the light of the growing threat from Chinese imports and possible responses from other players such as Servis, Shafi, and Firhaj. Doug was also particularly intrigued by the idea of launching new fashion brands such as Marie Claire and the use of global brands such as Slazenger and Hush Puppies. Doug realized that implementing these initiatives might require further revamping of several existing departments, and a new mind-set and culture at Bata.

Exhibit 1

BATA: STRATEGIC CHOICES

International Trade

Imports of Hides and Skins

	1980	1985	1990	1995	1996	1997	1998	1999	2000
World trade	2,540	3,287	5,316	6,170	6,006	5,705	4,522	3,757	
Pakistan	16	39	*25	27	28	24	11	10	11
China	N.A	N.A	157	368	322	356	346	354	564

Source: International Trade, PC-TAS, (HA) (211) Value in $ millions

Exports of Finished Leather

	1980	1985	1990	1995	1996	1997	1998	1999	2000
World trade	3,365	4,184	9,283	14,887	15,273	15,342	1,4007	13,290	
Pakistan	93	158	*392	266	263	224	195	174	204
China	N.A	N.A	128	347	268	327	350	351	538

Source: International Trade, PC-TAS, (HA) (611) Value in $ millions

Exports of all Footwear

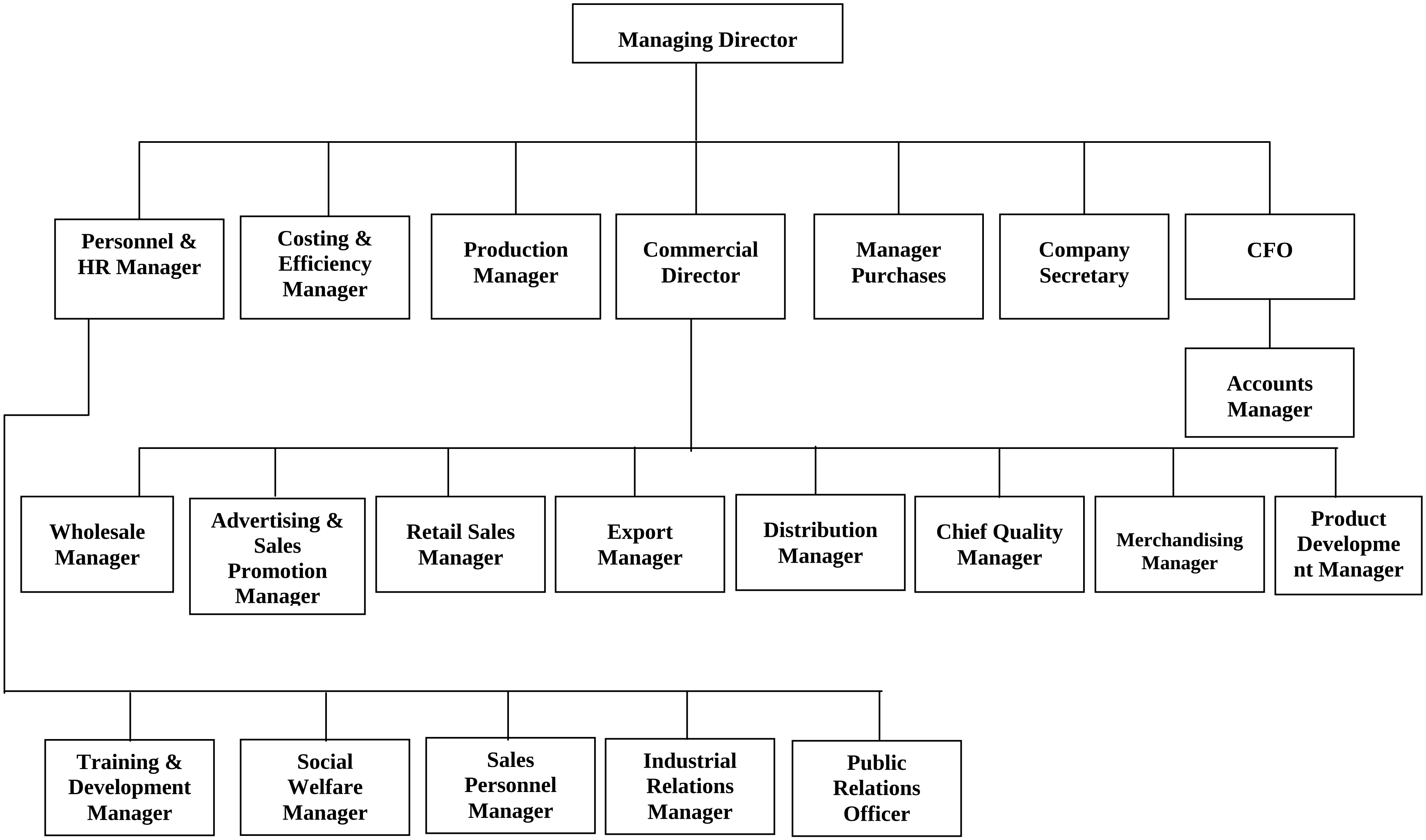
	1980	1985	1990	1995	1996	1997	1998	1999	2000
World trade	9,376	11,093	28,858	40,863	43,611	44,228	41,187	39,735	
Pakistan	10	13	22	N.A	51	48	39	38	41
China	N.A	N.A	1,956	6,273	6,859	8,186	8,155	8,464	9,541

Source: PC-TAS, (HA) (851) Value in $ millions

Exhibit 2

BATA: STRATEGIC CHOICES

Organisational Chart of Bata Pakistan



Source: Company Documents

Exhibit 3 (p 1 of 2)
BATA: STRATEGIC CHOICES
Financial Highlights of Bata Pakistan Ltd

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
NET SALES	**347.13**	**441.20**	**496.24**	**537.98**	**614.91**	**728.17**	**732.46**	**784.12**	**916.02**	**1,077.36**	**1,234.58**	**1,287.67**
Exports	26.08	21.26	11.36	11.72	28.42	37.34	48.06	38.16	61.34	87.62	6.73	61.44
Cost of sales	**244.22**	**312.36**	**348.26**	**364.44**	**409.69**	**488.80**	**502.88**	**535.50**	**629.93**	**759.32**	**852.14**	**935.89**
GROSS PROFIT	**102.91**	**128.84**	**147.98**	**173.55**	**205.22**	**239.37**	**229.58**	**248.62**	**286.10**	**318.04**	**382.44**	**351.78**
OPERATING EXPENSES	**66.83**	**76.09**	**84.20**	**95.98**	**114.39**	**138.85**	**150.98**	**164.29**	**191.81**	**205.66**	**252.70**	**270.41**
Administrative	21.02	25.26	27.59	30.80	37.47	43.83	48.83	53.83	60.48	74.34	91.69	93.05
Selling & distribution	45.82	50.84	56.61	65.17	76.92	95.02	102.15	110.46	131.33	131.32	161.01	177.36
OPERATING PROFIT	36.07	52.74	63.79	77.57	90.82	100.52	78.60	84.33	94.29	112.38	129.75	81.36
OTHER INCOME	**0.81**	**0.18**	**0.21**	**1.39**	**0.73**	**0.99**	**1.50**	**0.42**	**1.93**	**0.75**	**3.10**	**4.90**
	36.88	52.92	64.00	78.96	91.55	101.51	80.10	84.76	96.22	113.13	132.85	86.26
Financial & other charges	8.63	8.12	8.41	10.94	17.67	22.03	2.15	16.80	20.61	25.19	29.67	26.26
PROFIT BEFORE TAXATION	**28.24**	**44.80**	**55.58**	**68.02**	**73.88**	**79.48**	**57.96**	**67.96**	**75.61**	**87.94**	**103.17**	**60.00**
Provision for taxation	15.75	24.57	29.63	32.62	37.93	32.46	19.95	26.16	24.59	38.49	43.44	25.68
PROFIT AFTER TAXATION	**12.49**	**20.23**	**25.95**	**35.40**	**35.96**	**47.02**	**38.01**	**41.80**	**51.02**	**49.46**	**59.73**	**34.32**
TOTAL ASSETS	**223.20**	**215.61**	**236.84**	**146.73**	**385.24**	**432.58**	**450.28**	**494.43**	**604.37**	**643.44**	**824.00**	**953.75**
Fixed Assets After Depreciation	**77.09**	**79.39**	**87.78**	**104.31**	**155.78**	**174.99**	**181.77**	**192.09**	**220.97**	**209.52**	**241.00**	**261.34**
Plant & machinery after depreciation & revaluation adjust	40.34	39.46	45.52	49.83	90.75	103.33	103.68	NA	121.93	129.85	142.00	165.53
Furniture, fittings	4.96	5.40	7.15	8.30	9.56	11.86	13.73	NA	20.57	22.90	31.00	34.44
Current assets	**145.70**	**136.21**	**149.04**	**172.75**	**227.82**	**254.82**	**266.05**	**294.68**	**372.41**	**421.07**	**516.36**	**624.78**
Stock in trade	110.44	104.95	109.01	134.56	173.05	190.84	196.25	215.59	273.17	266.48	350.08	381.52
Trade debt	21.73	15.27	22.09	20.65	34.42	36.72	34.99	35.34	51.73	69.16	84.72	87.65
LONG - TERM DEBT					**21.51**	**22.8**	**20.64**	**9.05**	**16.68**	**23.67**	**60.00**	**42.11**
Current liabilities (creditors)	**51.87**	**59.81**	**48.53**	**47.54**	**57.28**	**71.69**	**73.26**	**103.03**	**111.83**	**121.64**	**159.81**	**205.77**
SHAREHOLDERS' EQUITY	**46.57**	**60.50**	**78.57**	**105.63**	**130.25**	**162.08**	**200.09**	**245.67**	**281.57**	**314.40**	**357**	**376.69**
NUMBER OF SHARES	**NA**	**NA**	**NA**	**3,780**	**4,536**	**4,536**	**5,670**	**7,560**	**7,560**	**7,560**	**7,560**	**7,560**
EARNINGS PER SHARE	**3.96**	**6.42**	**8.24**	**9.36**	**7.93**	**10.37**	**6.70**	**5.53**	**6.75**	**6.54**	**7.90**	**4.54**

Source: Annual Reports, Bata Pakistan Ltd (Value in Rs Millions)

Exhibit 3 (p 2 of 2)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
NET SALES	**1,476.19**	**1,513.21**	**1,490.28**	**1,672.88**	**1,828.32**	**2,001.70**	**1,849.33**	**1,658.76**	**2,007.22**	**2,187.95**	**2,065.50**
	61.85	72.28	52.95	69.64	82.97	50.78	125.19	109.56	74.57	60.18	74.61
Cost of sales	**1,086.41**	**1,121.92**	**1,118.10**	**1,230.18**	**1,375.92**	**1,517.92**	**1,383.57**	**1,300.95**	**1,425.76**	**1,539.0**	**1,376.21**
GROSS PROFIT	**389.78**	**391.29**	**372.19**	**442.70**	**452.40**	**484.12**	**465.76**	**357.81**	**581.46**	**648.93**	**689.30**
OPERATING EXPENSES	**307.14**	**310.71**	**320.27**	**356.70**	**360.38**	**394.28**	**410.56**	**424.41**	**458.42**	**509.58**	**507.04**
Administrative	102.71	100.52	107.74	111.46	126.73	151.99	155.23	175.82	167.48	189.30	171.97
Selling & distribution	204.44	210.19	212.53	245.24	233.65	242.29	255.33	248.59	290.94	320.29	335.07
OPERATING PROFIT	**82.64**	**80.58**	**51.91**	**86.00**	**92.02**	**89.84**	**55.20**	**-66.60**	**123.04**	**139.35**	**182.26**
OTHER INCOME	**5.02**	**5.50**	**5.42**	**3.54**	**2.89**	**3.86**	**2.36**	**2.75**	**0.78**	**2.95**	**4.00**
	87.66	6.08	57.33	89.54	94.91	93.69	57.56	-63.85	123.82	142.30	186.26
Financial & other charges	36.87	38.97	37.17	45.33	49.88	43.97	44.59	52.43	76.55	77.18	81.78
PROFIT BEFORE TAXATION	**50.79**	**47.11**	**20.16**	**44.21**	**45.02**	**49.72**	**12.97**	**-116.28**	**47.26**	**65.11**	**104.48**
Provision for taxation	26.56	17.84	4.65	14.70	18.52	20.29	12.28	8.06	13.31	18.58	36.10
PROFIT AFTER TAXATION	**24.22**	**29.28**	**15.52**	**29.51**	**26.51**	**29.43**	**0.69**	**-124.34**	**33.95**	**46.53**	**68.38**
TOTAL ASSETS	**962.19**	**1,017.12**	**986.96**	**1,092.27**	**1,106.27**	**1,106.36**	**1,119.63**	**1,161.34**	**1,377.81**	**1,453.63**	**1,492.02**
Fixed assets after depreciation	**252.83**	**253.22**	**246.24**	**262.81**	**261.64**	**248.39**	**234.48**	**255.73**	**267.97**	**247.62**	**230.03**
Plant & machinery after depreciation & revaluation adjust	159.26	163.03	158.83	165.05	162.85	153.69	141.41	155.95	154.68	140.84	128.19
Furniture, fittings	36.21	37.95	39.10	43.96	47.47	52.86	55.99	63.66	82.94	88.44	92.45
Current assets	**656.94**	**640.21**	**80.03**	**711.46**	**769.16**	**810.09**	**882.37**	**800.92**	**1038.54**	**1174.26**	**1225.78**
Stock in trade	396.99	409.06	38.52	446.14	550.66	513.36	563.11	524.85	539.29	391.25	391.68
Trade debt	96.14	120.04	19.26	136.92	123.71	159.57	174.36	113.62	330.09	531.54	674.13
LONG - TERM DEBT	**25.36**	**12.91**	**2.21**	**0.78**				**150.00**	**150.00**	**25.00**	
Current liabilities (creditors)	**191.32**	**234.36**	**26.35**	**297.67**	**351.63**	**359.51**	**404.14**	**355.86**	**518.44**	**568.57**	**579.7**
SHAREHOLDER'S EQUITY	**387.69**	**404.86**	**420.38**	**443.84**	**419.67**	**429.01**	**404.94**	**280.60**	**299.44**	**325.18**	**363.32**
NUMBER OF SHARES	**7,560**	**7,560**	**7,560**	**7,560**	**7,560**	**7,560**	**7,560**	**7,560**	**7,560**	**7,560**	**7,560**
EARNINGS PER SHARE	**3.20**	**3.87**	**2.05**	**3.90**	**3.51**	**3.89**	**0.09**	**-15.38**	**4.49**	**6.16**	**9.04**

Source: Annual Reports, Bata Pakistan Ltd (Value in Rs Millions)

Exhibit 4
BATA: STRATEGICCHOICES
Financial Highlights of International Tanners and Industries (Pvt.) Ltd

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
NET SALES	**20.57**	**222.29**	**257.02**	**272.73**	**275.9**	**293.39**	**236.69**	**223.04**	**199.14**	**60.56**	**3.13**
Exports		45.08	26.93	56.63	20.27	89.53	96.55	85.85	49.54		
Sales to Bata	11.02	138.59	154.39	141.98	155.46	120.63	110.08	107.56	124.79	58.93	0.6
COST OF GOODS SOLD	**16.96**	**201.81**	**222.33**	**236.03**	**216.01**	**257.61**	**210.86**	**205.82**	**190.51**	**64.63**	**10.11**
GROSS PROFIT	**3.61**	**20.48**	**34.68**	**36.7**	**59.89**	**35.77**	**25.84**	**17.22**	**8.63**	**-4.07**	**-6.97**
OPERATING EXPENSES	3.17	12.63	17.53	21.32	23.83	22.68	15.1	11.2	10.79	-4.28	-0.53
Administrative expenses	1.2	3.89	6.01	6.87	9.37	9.5	10.11	6.17	6.41	-4.17	-0.52
Selling and distribution	1.96	8.73	11.52	14.44	14.46	13.18	4.99	5.03	4.38	-0.11	-0.01
OPERATING PROFIT (LOSS)	**0.44**	**7.85**	**17.15**	**15.38**	**36.07**	**13.09**	**10.74**	**6.02**	**-2.16**	**-8.35**	**-7.50**
Financial & other charges	0.74	16.15	23.8	27.56	25.77	22.38	18.68	16.76	13.78	-12.83	-1.38
PROFIT (LOSS) BEFORE TAXATION	**-0.29**	**-8.30**	**-6.65**	**-12.17**	**10.29**	**-9.29**	**-7.94**	**-10.74**	**-15.95**	**-21.17**	**-8.89**
PROFIT (LOSS) AFTER TAXATION	**NA**	**-8.30**	**-9.55**	**-13.87**	**8.92**	**-10.88**	**-9.14**	**-12.54**	**-17.19**	**-22.30**	**-8.79**
Loss brought forward from previous year	NA	-0.29	-8.59	-0.02	-0.014	0.009	-0.01	-0.01	-0.01	-0.02	-0.02
LOSS CARRIED FORWARD	**-0.29**	**-8.59**	**-18.15**	**-13.89**	**8.90**	**-10.87**	**-9.15**	**-12.55**	**-17.21**	**-22.32**	**-8.81**
TOTAL ASSETS	**80.02**	**157.49**	**183.92**	**179.93**	**167.39**	**177.54**	**144.41**	**131.87**	**112.59**	**55.2**	**46.65**
Fixed assets after depreciation	**76.55**	**88.69**	**97.13**	**90.79**	**86.88**	**76.25**	**69.28**	**62.20**	**56.49**	**47.82**	**40.88**
Building / factory at cost	NA	2.49	21.51	21.64	21.64	21.68	21.68	22.15	22.15	22.15	22.15
Plant & machinery at cost	NA	58.82	73.89	75.48	78.23	84.27	84.3	84.21	84.21	76.23	69.24
Plant & machinery after depreciation & revaluation adjustment	NA	52.93	61.28	56.63	53.44	53.63	48.31	43.44	39.11	32.02	26.23
LONG TERM DEBT	**48.00**	**48.00**	**32.00**	**100.00**	**50.00**	**50.00**	**48.76**	**25.00**	**25.00**	**25.00**	**0**
SHAREHOLDERS' EQUITY	**1.70**	**-6.59**	**-16.15**	**-30.02**	**26.9**	**16.02**	**6.88**	**19.34**	**2.15**	**-20.15**	**46.06**

Source: Annual Reports, Bata Pakistan Ltd (Value in Rs Millions)

Exhibit 5

BATA: STRATEGIC CHOICES

Bata Sales (in pairs) by Product Category

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	UNIT SHOE PRICE IN 2001*	TOTAL REVENUE*(in million)
Men's leather shoes	3,655	3,206	2,909	3,082	2,488	1,978	1,579	1,462	1,818	1,509	1,869	340	635
Canvas shoes	3,518	3,952	3,235	3,615	3,960	3,250	2,921	2,553	2,699	2,521	2,121	140	297
Women's shoes	1230	1,234	1,189	1,219	1,292	1,460	1,324	1,355	1,481	1,544	1,343	200	269
Children's shoes	1,909	2,166	2,050	2,081	2,057	2,309	2,215	2,322	2,607	3,196	2,732	200	546
Joggers	1,502	1,567	1,737	1,689	1,648	1,684	1,621	1,249	1,196	849	641	350	224
Slippers / Hawaii	1,590	1,484	1,423	1,750	2,206	2,681	2,427	2,018	3,369	4,232	4,952	50	248
PVC / slippers	5,000	4,140	3,745	3,863	4,124	4,388	3,899	3,127	4,036	4,189	3,255	60	195
Industrial shoes	2	1	2		1	1	2	5	8	16	27	--	--
Total pairs	18,406	17,750	16,290	17,299	17,776	17,751	15,988	14,091	17,214	18,056	16,940	--	--

Note: * Case Writer's Estimates

Source: Bata Pakistan Ltd (Value in Rs Thousands)