Pakistan - A Marketing Challenge

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Foreword

This report was written in the light of Michael Porter's theory, "The Competitive Advantage of Nations". It is an attempt to apply this theory to Pakistan and find ways of making Pakistan marketable to the outside world.

There are areas where Pakistan can create a niche, a stronger position and how to achieve this is presented in this report.

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The fading shadows of this century blossoms the dawn of a new millennium! A millennium, which brings with it, new hopes, fervor, enthusiasm, opportunities and challenges. At a micro level, companies and individuals strive to compete and avail new opportunities, explore new ideas and new products. The stage is set to break the shackles of certainty, and achieve the unachievable. The Macro front may witness countries performing to the best of their abilities and available resources. Performances instilled with creative instincts, professional enthusiasm, technological support and expertise, keen observation and adaptation. To top it all, these performances will be based upon a vision, a strong and clear cut vision.

In the midst of such performances, within the globally competitive arena, Pakistan faces some strong challenges. It has all that it needs to compete in this competitive environment. All it needs now is someone, who can use its resources with wisdom, devotion and determination, someone, who believes in the true potential of Pakistan. In this paper, I will try and list a few areas of concentration, apply a few theories and give a few humble suggestions. This forum is open to all who care for, and believe in Pakistan.

Global Competition

The global arena presents some strongly competitive forces. The west may show an aggressive stance through collaboration and consolidation. The European Union is there to safeguard the interests of Europe. United they stand against a much divided East. Then, there are other Unions and Groups of countries and states. They have all formed an alliance to attain a stronger position against their competitors. If one country lacks in some resource the other plugs in. Pakistan needs to consider the prospects of such strategic alliances and collaborations.

We may find two distinct competitive segments. The first, comprising of countries resourcefully developed with sound financial and technological backing, while the other, specifically focusing on emerging markets. At instances, there may appear to be another segment, a segment involving the under-developed countries showcasing their lusty resources and cheap labor.

Trading Globally - Strategies & Theories

A Country's economic development depends upon its trade. Like, the list of products being imported or exported? In which area or product does it maintain a competitive position? Is the country importing more than it is exporting? What is the intensity of trade? Then, we must analyze the customer base. Who are they? Where are they? What is their respective financial standing and trading pattern? Countries throughout the world have adopted different trade policies and theories. Some, call for a more influential government role while others limit it altogether.

Adam smith in his book, in 1776, 'The Wealth of Nations', said, "The real wealth consists of the goods and services available to a country's citizens." In his theory of Absolute Advantage he said, "Different countries produce some goods more efficiently than others." This, is where a country gets its competitive edge from, it focuses its resources in producing specialized goods and services, thereby securing an edge over its competitors and a dominant position in the overall International Market.

Smith and Ricardo gave some favoring theories in this regard. According to them, these practices would lead producers to efficient production of goods. There are many economic theories available, dealing with Land–Labor relationships, Labor-Capital relationships and Factors Production Theory. Our analysis would be based on a recent study made by Michael E. Porter, under the title of, “The Competitive Advantage of Nations.” It is one of the most highly regarded theories being applied in today’s world.

Exports vs Imports

Nowadays we hear a lot about deficits and surpluses. Exports or Imports both have their pros and cons. By exporting more we can make use of our excess capacity and reduce our opportunity costs. Bulk exports can reduce the cost per unit and help us attain economies of scale. Exporters can get high markup ratios from international markets as compared to their local, domestic shares. At the same time governments can also gain from these markups. The cautious exporter may reduce his risk by spreading it over to different demand conditions thereby, if demand of a particular item falls in one country it rises in another.

Through imports we can get cheaper and better quality goods. For example, Japan imports rice because its locally produced rice is relatively more expensive this in turn can help keep inflation in control. We can increase our supplies and make additions to our product line. By choosing the right mix, we can achieve a harmonious blend. Where, we get the fruits of both, the exports and the imports.

Factors, Creating a Difference

There are many factors that can help or hinder a country's competitive attractiveness. Some countries have access to natural resources or climatic conditions like Sri Lanka producing tea and rubber. In the same way Pakistan’s overall climate is good for growing cotton, wheat and rice etc. The natural resources may also include certain acquired resources like, skilled labor, which can make that little bit of difference that exists between a developed and an underdeveloped country.

Technology, in today's business, occupies a prominent position, as products are becoming more and more sophisticated and economies of scale, all the more important, creating efficiency in resource utilization is important. At the same time, favorable conditions are also necessary to meet your targets. There are times, when a country's size, play an important role in providing a variety of resources. In the same way economic sizes can be crucial to a country's exports. These are some of the factors involved in aiding and facilitating a country. In reality, however, there are hundreds of other factors affecting either directly or indirectly. The law and order condition in Karachi can be a factor. In the same way rapidly changing governments and their policies can be another. These factors create the foundation for all development and that is why we need to sharpen our focus on them.

Introducing, Porter's Diamond

Porter, a Harvard Business School professor, conducted a comprehensive study of 10 nations to learn about the factors leading to a country's success. This study was published as "The Competitive Advantage of Nations". In his study, he has introduced four key determinants of 'National Competitive Advantage' termed as, 'The Porter Diamond'.

Necessary Factor Conditions

Factor conditions involve inputs that are used in factors of production such as; land, labor, natural resources, capital, infrastructure etc. According to Porter, there are other factors too, vitally important in making a country, competitively strong. Porter calls them, 'Advanced Factors' (communications infrastructure, skilled labor, research facilities and technological education). According to him basic factors such as land, labor and raw material can easily be accessed and duplicated, it is the specialized factors that create a difference and thus a competitive advantage.

For example, apples are most commonly grown in Balochistan and other tribal areas of Pakistan. Their produce is internationally competitive, not only in price but also in quality. They have introduced and adopted an appealing variety of apples. The only thing lacking, is a solid infrastructure. The resource needs protection from the Government. It needs hi-tech equipment for its packaging and polishing, storage houses to safeguard their freshness and roads for a speedy and timely transportation. This is just one example; there are numerous other areas which need to be considered as favorable investment opportunities. We just need to pick the right ones promising to give us the maximum returns.

Lab Assignment

If we apply this theory to other countries we may find a pattern. Holland is world's top flower exporter because it maintains a list of sophisticated factors like, research institutions, packaging, cultivation and shipping/ transportation all built around this export produce. Denmark, on the other hand, has hospitals concentrating on studies and treatments of diabetes and thus it exports Insulin. In Pakistan, we have agricultural institutes, leather and cotton research centers. As regards the sophisticated labor needs, our planners and policy makers are trying to boost the country's computer literacy rate. Our recent government had been involved in giving incentives to companies for transferring technology so that our labor can have a hands-on experience of present day hi-tech equipment and machinery. To fulfill the need for a stronger communication infrastructure, heavy investments of time, money and efforts have been made. According to the '9th Five -Year Plan' an amount of Rs.100 billion had been allocated for the development of new roads and highways. Pakistan is in dire need of a new sea port. In this regard international consultants have conducted a feasibility study for the ‘Gawadar’ deep-water port. It is high time for Pakistan to grow strong from inside and face the hostile challenges of the outside world.

Pakistan’s Dilemma

Pakistan is blessed with abundance of resource. Our skilled or sophisticated workforce is one such blessing. Let’s consider this workforce as our (Pakistan’s) product or offering. Now, we know that every product has a ‘Product Life Cycle’. It is, at the maturity stage that you can expect to get maximum returns from your product. If we apply this cycle to our skilled labor resource, we will see that, at a stage where value can be extracted the product is taken away from us. Our skilled workforce, leave Pakistan. Pakistan is adding value to their skills and others are reaping the fruits. Pakistan invests in them, help them go through the initial growth stage and when the momentous point is reached these finished value–added products are shipped out. What does Pakistan get out of this? Who would remain behind if these intelligent brains are exported, unskilled workers!

Pakistan does get some of this resource back but only after it has been milked out of its golden years of excellence. When a product’s life has reached its decline and when the product no more contains the magic of vim, vigor and vitality required to maximize returns. At the same time, we cannot deprive these young enthusiasts from making their destiny, we have to give them a chance to grow and excel. When you don’t get opportunities at home you have to go out and search for them and this is what our skilled labor has been doing.

1. Demand Conditions

Home Market’s demand patterns help in shaping a company’s responsiveness towards buyer needs. Nations gain a competitive edge if sophisticated and demanding buyers can provide a clear picture of their needs and wants, thus preparing the ground for innovation, product development and improvement. For example a French Multinational, Danone, who specializes in Biscuits and Bottled water, is rated amongst the top biscuit manufacturers. It owes a lot to its local buyers who molded Danone into a consumer giant.

We maintain a large portfolio of products. In value added or export industries we have leather, textile, footwear, surgical, sports goods, carpets, frozen concentrated citrus, juices, sea -food and marble. According to Porter's demand theory these excellent products are a result of pressures placed by the buyers on producers to innovate, secondly through sophisticated domestic buyer needs ending up in economies of scale. In this respect, local demands form the foundation of these high quality and internationally marketable products.

Is our Pakistani buyer sophisticated? In Pakistan sophistication varies from segment to segment. It is not necessary that all exporting entities sell locally, and that, their exports are originated from local selling. The goods they are offering to the local market can comparably be of lower quality than what they are exporting. This lacking in sophistication and sophisticated demands from our local buyers may be attributable to our lack of education, financial problems or social and environmental influences. It is a general perception in Pakistan that if a product is made locally, it is of low quality. Local brands have tarnished their image of being a credibly strong provider of value. Developing an image of trust and quality may take a long time, but destroying it won't because claiming a venerable position is rather easy than maintaining it.

That is the primary reason of not being able to compete internationally. Porter found that in New Zealand the British "stiff upper lip" attitude prevented complaints. These complaints can become the root cause of innovation, product enhancement and development. How are we going to achieve the targets of demand conditions? Our local buyers must progress towards the point where they display sophisticated demand and responsive behavior. The basis for innovation, product improvement and quality maintenance is coming from

Foreign Markets. Many exporting companies have been barred because of their sub-standard products. For them, getting a quality assurance certificate is the first step and maintaining it is another. Pakistan has now become aware of the need for such credible quality assurances. Pakistan Standard and Quality Control Authority (PSQCA) is established and according to the Board of Investment's recent report, the establishment of ISO-9000 certification body within PSQCA is underway. This will not only help us in reducing our costs for quality certifications but also ensure a speedy and hassle free certification.

2. Related and Supporting Industries

Next, on Porter's priority list is the existence of nearby related and supporting industries. These industries work as back-up operators providing timely raw material as and when required. Porter found that, in Italy shoe manufacturers learn about new textures and colors of leather from leather manufacturers. While leather manufacturers learn about new trends and styles from shoe manufacturers. In a nut -shell, strong bonding helps in providing chances for innovation at all levels of the value-added chain. Porter refers to these industries as 'clusters'. In Pakistan industries like Leather, Cotton, Marble etc. have related and supporting industries present within the proximity helping the final manufacturer in reducing its transportation costs and at times adding value to finished goods.

3. Firm Strategy, Structure and Rivalry

Strong domestic competition, allows a company to innovate and formulate winning strategies. Those who win their domestic battles are most likely to win their global ones too. Take the examples of Japan, Germany, Italy and the US, where, intense domestic competition in PC markets has provided the means to grow by innovation and up-gradation. In Pakistan, there are cartels and alliances hindering new entrants thus making life difficult for smaller budding firms to enter and grow.

Applying the Diamond Strategy

Porter's Diamond works in an integrated fashion. Every factor leads to and supports the other. Countries play a vital role in providing favorable conditions for companies to grow and flourish domestically. These are the players who directly participate in international trade. Thus, strong domestic rivalry can spur a wave of innovation creating specialized and skilled labor resources. It may lead to a more demanding and sophisticated customer base and we may see the supplying industries flourish. This will lead us to a compact structure of industries including finished product manufacturers, supporting firms and a specialized pool of labor resource. If we apply this system to Pakistan, we may find a few gray areas and a few bright and shiny ones. There is hope and there is despair. Regarding the first part, which demands additional sophistication like research facility, skilled labor, technological knowledge etc. the Government has provided some infrastructure for the availability of these resources. As a result, there is a wealth of skilled resource but at the same time, due to the lack of domestic opportunities this resource is being shipped out of Pakistan. Scholars, researchers, marketers, computer wizards are going to the land of opportunity. Why? Because two of the four factors are not fulfilled, lack of related and supporting industries and the absence of a firm strategy and rivalry. Take the example of India, where the presence of these factors helped in flourishing their computer Industry.

What about the Infrastructure! Can our government make heavy investments in it? Is it earning sufficient revenues to invest in such projects? How good are we in collecting taxes? Are we facing a surplus or a deficit? Our recent Government has made some plans to improve the overall export environment in Pakistan. Whether these plans did mature or not is another story. The creation of Free Industrial and Free Trade Zone is a favorable task. This may help locate and relocate all our productive activities where they can be performed most efficiently thus enabling value adding industries to prosper. Suppliers acting as facilitators would be located nearby to fulfill all the requirements of supporting industries. Another commendable criterion set for these trade zones is that, these Zones are required to employ “skilled manpower” from within the country, helping to ease the burden of unemployment of skilled labor. Marble, Textile, Leather, Sports Goods and Surgical Instruments succeeded because all of these key factors were available.

Here, we revert back to Porter, who says that, National Policies can deeply affect a firm's international strategies and opportunities. According to him, Governments should focus on specialized factor creation and limit their direct cooperation among industry rivals thereby curbing the congenial environment of alliances and mergers. In order to gain every country must strategically invest its resources and forgo something. Not one country has leadership in all areas. Italy has it in shoes and ceramic tiles, Japan in automobiles and electronics, Switzerland in watches etc. This is the strength of a competitive strategy doing something, which cannot be easily copied or duplicated by rivals!

Limitations of the Diamond

No single theory promises to give prosperity or solve all the problems of the world. The mere existence of favorable conditions is not sufficiently enough to promise industrial growth. The absence of any of the four conditions in the domestic environment may hinder a company’s ability of being competitive in the global arena. Furthermore, this model is devoid of predictive attributes and limits itself to a small number of variables. For example, it does not include the effects of international quotas and biases. What struck Pakistan recently? Sanctions! The recent government’s decision of going Nuke was subjected to bans and sanctions by the international community. Now, the change to dictatorship will have its own consequences. What about these macro factors! Where can we put issues like, child labor that has deeply affected our carpet and sports goods industries? There are so many factors and variables involved in such a huge study, that it is quite difficult to devise a simple theory suitable to all. However, this theory works wonderfully well in creating a basic structure and foundation of a nation's ability to win and compete globally.

Controlling the Uncontrollable

Throughout the analysis we have talked about various factors and the role of governments in making these factors and conditions suitably available for businesses. One important aspect of this analysis is that, governmental policies should remain uniform and for that reason the government should remain intact throughout its reign. Porter's Diamond assumes the presence of such strong and stable environments, conducive to progress and prosperity. Unfortunately, in Pakistan, this is not the case. Governments come and go and their policies change too. We need a stable Government, which can put up a stable system of policy and structural reforms. Today as we see it, foreign companies are hesitant in investing under such hostile and volatile environments. We have a competition on our hands. Rival countries are posing to be an attractive investment opportunity and in this shaky economic and political system of ours we may find it difficult to compete. To attain a competitive position we need to put a control on these threatening factors, we need to control, the uncontrollable!

Come to Pakistan

Year 2001 has officially been declared as the 'Travel Year of Pakistan'. These traveling tours can create good prospects for foreign investment. Sri Lanka exports its services through foreign tourists. If these tourists find attractive investment opportunities in Pakistan they are surely going to avail them.

Pakistan is our product. We all need to provide favorable conditions to make this product marketable. Whether Micro or Macro both factors are equally important. At the Micro level, companies and individuals play their part and at the Macro, the government and agencies. These Factors show interrelated dependencies. When we are marketing our products globally, we are marketing Pakistan and if Pakistan gets marketed, we get marketed. Not one can survive without the other.

I have made an attempt to write something for my country. It started with a thought, just like Pakistan was. When we acted upon our thoughts, we achieved Pakistan. Before acting we need to clear our thoughts, our vision. We need to see a clear picture. Picture an excellently superior, successful and dominant Pakistan. Picture it, we might get it!!!!