Strategies for Chinese Companies to enter the Port Elizabeth sports-shoe market

By

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Declarations

“I, Zhi Guo, hereby declare that:

- The work in this paper is my own original work;

- All sources used or referred to have been documented and recognised; and

- This paper has not been previously submitted in full or partial fulfilment of the requirements for an equivalent or higher qualifications at any other recognised educational institution.”

__________________________  _______________________
Zhi Guo                                      Date
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ABSTRACT

This research addressed the study of entry strategies by Chinese sports-shoe manufacturers into the South African sports-shoe market. The goal of this research is to investigate what are the appropriate entry strategies for Chinese sports-shoe companies to enter the South African sports-shoe market.

A Chinese sports-shoe company, Li Ning Limited, was used as a case study to illustrate the methods to explore appropriate entry strategies.

The research methodology included:

- A literature study to explore the popular entry strategies used to enter the South African and also global markets was conducted. In addition, the South African and Chinese market environments were investigated.
- An empirical study, a survey of sports-shoe customers and sports-shoe shops owners, was done in order to explore the advisable entry strategies for Chinese sports-shoe companies to enter the South African sports-shoe market.

According to the literature study as well as the empirical study, the research explored some advisable entry strategies for Chinese sports-shoe companies into the South African domain.
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CHAPTER 1 RESEARCH DESIGN, DEFINITION OF CONCEPTS AND PROGRAMME OF STUDY

1.1 INTRODUCTION

Pelosky and Stanley (Thompson & Strickland, 2004:198) state that “There is no purely domestic industry anymore.” To be a modern company, which is operating in a world shaped by globalization and the information revolution, there are only two options: “Adapt or die (Thompson & Strickland, 2004:198).”

South Africa is a fairly large country with an area of more than 1.2 million square kilometres, about 3.5 times the size of Germany (or the size of the UK, France, Germany and Holland combined) with an estimated population of forty seven million people (Goliger, 2005). From an African perspective, the South African area represents only three percent of the continent, but the country contributes 40 percent of its total industrial output and 25 percent of the continent’s total Gross Domestic Product (Goliger, 2005). The above data show that the South African economy is rather an integral part of the African economy.

South Africa enjoys a high ranking in Rugby, Cricket, Golf, Cycling, Swimming, and Marathon. Sport is such a popular activity in South Africa that numerous sport-lovers can be found around the country at all the time.

Thanks to the popularity of sports in South Africa, the local sports-shoe market is considerably dynamic. Particularly the middle to high class sports-shoe market in South Africa is filled with up to date world famous top brands, like Nike, Adidas, Reebok, New Balance, Puma, And1 and Oakley. From the researcher’s observation and investigation of South African sports-shoe market, none of the
Chinese brand sports shoe enters the middle to high class. Only low level and low quality Chinese sports shoes can be found in small retail shops, supermarket, kiosks and some Chinese shops. Ironically the majority of the world brand sports shoes now are made in China. What is the reason that stops the Chinese sports shoe to enter into the middle to high class sports-shoe market in South Africa?

Nowadays, China produces eighty percent of the world’s sports shoes. With 1,500 exporters in the line, it offers large, midsize and small suppliers that manufacture a wide range of models (Business Wire, 2005). The Chinese sports-shoe products include casual sports shoes, cross-trainers, running shoes and tennis, basketball, roller shoes and football models. A question may arise: why Chinese sports-shoe manufacturers have such capability of production and has such a wide coverage of types? The secret weapon is due to “the virtually unbeatable price and the slightly increasing cost globally” (Business Wire, 2005).

Besides the advantage of a competitive price, some Chinese brands sports shoes now also have improved a lot on quality and pleasing appearance, but what kind of entry strategy should a Chinese sports-shoe company implement to enter the middle to high class sports-shoe market in South Africa? This question will be studied in this treatise. The study will be useful for Chinese companies in China, who want to expand their international market to South African middle to high class sports-shoe market.

1.2 THE PROBLEM STATEMENT

The main problem of this research project is:
What are the suitable entry strategies for Chinese sports-shoe companies to enter the middle to high class South African sports-shoe market?

In order to achieve the main problem, the following two sub-problems also need to be addressed:

- What, according to the literature, are the popular entry strategies used in the South African and also global market and what are the decision criteria for entry strategies?
- According to the empirical study, what are the advisable entry strategies for Chinese sports-shoe companies to enter the sports-shoe market of Port Elizabeth?

1.3 DELIMITATION OF THE RESEARCH

Delimitations to the research are as follows:

1.3.1 Geographic

The consumers in different cities have diverse tastes and different purchasing power. Ideally, a study of this nature would be conducted on the sports-shoe market of the South African major cities like Johannesburg, Durban, Cape Town and Port Elizabeth. In this research, the sports-shoe market study is focusing on Port Elizabeth. There are some notable reasons listed below:

- The market environment of every major city of South Africa has similarities. Pick ‘n Pay, Shoprite-Checkers, Woolworths, Spar and Macro are the dominant shops selling most of the commodity in every major city in South Africa;
Port Elizabeth today has over a million citizens and is - after Johannesburg, Durban and Cape Town - the fourth biggest city in South Africa (South Africa Online Travel Guide, 2005);

The climate is one major contributor to the reputation of Port Elizabeth as offering an outstanding quality of life (Go2africa, 2004). Temperatures are moderate all year round with rain scattered throughout the year. Summers have a very temperate humidity level, while winters are mild and pleasant;

The size of the sports-shoe market in Port Elizabeth is manageable and not expensive from the point of view of the research compared with the other major cities in South Africa.

1.3.2 People

The people involved in the investigation will be the customers and the managers of five sports-shoe shops in Port Elizabeth.

1.3.3 Industry

This study will be focused on the sports-shoe industry only.

1.4 DEFINITION OF THE SELECTED CONCEPTS

The following definitions of concepts will be applied in the research:

1.4.1 Li Ning Co. Limited

Li Ning Company is one of the leading sports brand enterprises in the Peoples Republic of China. They have their own branding, research and development, design, manufacturing, distribution and retail capabilities. Li Ning Company has been listed on the Main Board of the Stock Exchange of Hong Kong Limited
since 28 June 2004 (Li Ning, 2004). Its products include sports footwear, apparel and accessories for sport and leisure under the LI-NING brand.

1.4.2 Black Economic Empowerment

Black economic empowerment (BEE) is part of South African growth strategy. According to the BEE Commission (Business Referral and information Network, 2005), BEE is “a strategy aimed at substantially increasing black participation at all levels in the economy”.

BEE is aimed at redressing the imbalances of the past by seeking to substantially and equitably transfer ownership, management and proportionate control of South African financial and economic resources to the majority of its citizens (Business Referral and information Network, 2005). BEE also aims to ensure broader and meaningful participation in the economy by black people. In this Act, "black people" is a generic term which means Africans, coloureds and Indians (DTI, 2006).

1.4.3 Broad-Based Black Economic Empowerment

Department of Trade and Industry defined Broad-Based Black Economic Empowerment (BBBEE) that it means the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies including (DTI, 2006):

- Increasing the number of black people who manage, own and control enterprises and productive assets,
- Human resource and skills development,
- Preferential procurement,
- Facilitating ownership and management of enterprises and productive assets by communities, workers, co-operatives and other collective enterprises,
- Achieving equitable representation in all occupational categories and levels in the workforce and
- Investment in enterprises that are owned or managed by black people.

1.4.4 Entry strategy

Entry strategies are the means to enter new markets in which long-term objectives will be achieved (David, 2005:13). The Australian Trade Commission (Australia government, 2005) confirms that “One of the most important decisions in developing an export business is deciding on a market entry strategy”.

Figure 1.1 Foreign market entry strategies

Source: Adapted from Jeannet and Hennessey, 2004:291
One major choice concerns the method of entering any selected market. There are numerous market entry strategies that a business can implement when setting up abroad, for example, Export, Foreign direct investment, Licensing, Assembly, Fully integrated production, Joint venture, Alliances and Contract manufacturing as Figure 1.1 shows above. Each entry strategy has differing levels of risk, legal obligation, advantages and disadvantages (Cheng, 2005:96). Another major choice involves the amount of direct ownership desired. Should the company attempt full ownership of its local operation, or will a joint venture be preferable (Jeannet and Hennessey, 2004:291)?

1.4.5 Customer value analysis

A customer value analysis allows a firm to understand how its customers experience value, and gain first hand information from its customers’ decision making criteria and processes. It draws customer needs and objectives in terms of the customer’s value chains, meanwhile it empowers organisations with superior business intelligence capable of unlocking complex market opportunities (Snowden, 2006). Customer value analysis uses customer data to answer the critical questions used by real customers when choosing between different suppliers (Handel, 2001:190). It includes:

- What factors are the most important drivers of customers purchase decisions?
- How do customers perceive the overall value of your products and services relative to competitors?
- What are the areas for improvement that will have the most impact on your ability to win and retain more business?
- What factors should be emphasized in marketing communications?
On the whole, customer value analysis provides a company with a clear, concise, and accurate picture of its market position.

1.5 ASSUMPTION

Only one assumption was made in the context of this study. It is assumed that there is no occurrence of any serious economic crisis, which will severely influence the current lifestyle of consumers of sports-shoes in South Africa.

1.6 THE SIGNIFICANCE OF THE RESEARCH

The entry strategies of the sports-shoe market in Port Elizabeth will be studied for Chinese companies. No evidence of previous studies on this topic has been found. The three main benefits of the study are listed below:

- Mistakes in research cost less than actual mistakes. Doing sufficient research will reduce some avoidable mistakes in the practical application of the strategy.
- During the investigation, the suitable marketing entry strategy for sports-shoe business will be identified; meanwhile the local custom value will be analyzed.
- The marketing research study and the proper entry strategy plan of the company is a necessary requirement for any loan from an institution (such as a Bank, a venture capital investor or a company like business angels).

1.7 RESEARCH DESIGN AND METHODOLOGY

The structure of the research design and methodology will be adopted to solve the main problem as well as the related sub-problems in the research project as the Figure 1.2 shows below:
1.7.1 Literature survey

A literature study will be conducted in order to identify the market environment of the sports-shoe market in South Africa. An analysis of South African policy for the foreign investment will help identify and understand the key decision elements of the entry strategy.

1.7.2 Empirical study

The empirical study will include in the following:

1.7.2.1 Population to be studied

150 randomly chosen customers, shopping at the five biggest sports-shoe shops in Port Elizabeth will constitute the samples.
1.7.2.2 Questionnaire communication methods

Personally administered questionnaires will be utilised for this research. The benefits of this method are its high speed of data collection and high response rate.

1.7.2.3 Data collection procedure

Personal interviews will be suitable for this survey. The interviewers will help the respondent to elicit a desired reply. The data collection procedure will include the following 3 steps:

● Interviewers will be recruited (i.e. second-year marketing students).
● Training the interviewers. To ensure they are familiar with the questionnaire; to make sure the questionnaire were being correctly completed; to execute the correct length of time to complete the questionnaire.
● Collecting questionnaires, checking the completeness and clarifying unclear responses.

1.7.2.4 Data analysis techniques to be used

Quantitative analysis will be used in the research. The study will be designed to determine those items, which will influence the entry strategy decision into the Port Elizabeth sports-shoe market.

1.8 OUTLINE OF THE STUDY

The following chapters have been planned:
CHAPTER 2 ENTRY STRATEGY ANALYSIS
This chapter will study the differences and advantages of the dissimilar entry strategies.

CHAPTER 3 THE SOUTH AFRICA MARKET ENVIRONMENT
The South African sports-shoe market will be studied from the secondary material from the library, government reports, journals and internet.

CHAPTER 4 THE CHINESE SPORTS-SHOE INDUSTRY
A SWOT analysis of the Chinese sports-shoe industry will be conducted in this chapter.

CHAPTER 5 THE EMPIRICAL STUDY AND METHODS USED
The design of the empirical study and methods used will be described.

CHAPTER 6 RESULTS AND ANALYSIS OF DATA OF THE EMPIRICAL STUDY
The findings from the survey will be integrated with the literature study in order to find a few suitable entry strategies for Chinese sports-shoe companies wanting to enter the South African market.
CHAPTER 2 ENTRY STRATEGY ANALYSIS

2.1 INTRODUCTION

International trade theory as explained by Terpstra and Sarathy (2000: 39) stipulates that the principal economic basis for international trade is the difference in price. A nation can buy some product with better prices from other countries instead of making it themselves.

When a company decides to enter a new market, it needs to choose an entry strategy. The following are a number of popular entry strategies listed in Figure 2.1 below: Export, Foreign direct investment, Licensing, Assembly, Fully integrated production, Joint ventures, Alliances and Contract manufacturing. Each entry strategy has differing levels of risk, legal obligation, advantages and disadvantages in same market (Cheng, 2005:96).

Figure 2.1 Foreign market entry strategies

Source: Adapted from Jeannet and Hennesey, 2004:291
The following sections explain the main entry strategies and interpret the advantages and disadvantages of each one.

2.2 EXPORTING

Exporting includes direct and indirect exporting (Kotabe & Helsen 2004: 511). Many companies choose exporting as their entry strategy to an international market, because it has two attractive advantages:

- Exporting requires minimum resources while allowing high flexibility with low risk.
- Exporting is usually the first mode of foreign entry used by many companies to test a new market and also to give first-mover advantage (Kotabe and Helsen 2004: 512).

The risks of exporting are low, because the company simply exports its excess production capacity when it receives orders from a market abroad. It is an acceptable and popular entry strategy for the small firms and the new companies (Kotabe & Helsen 2004: 512).

The problem of using an exporting strategy is that it is not always an optimal strategy. A lack of product modification can make a company’s marketing strategy inflexible and unresponsive (Onkvisit & Shaw, 2004:246). The home country’s currency will also heavily influence exporting. From late 2002 the South African rand began to appreciate from an all-time low of R13, 85 to US $1 to a level of R8 in 2003 which had not been seen in five years (IRIN, 2006). The South African rand became so strong that it was now difficult for South African companies to export and sell products in the home and international markets. South African Airways lost billions on an unstable rand; mining companies
reported an erosion of their earnings; and the textile sector has less and less orders from overseas (IRIN, 2006).

2.2.1 Indirect exporting

When a manufacturer with little or no experience in exporting wants to enter a new market, indirect exporting could be useful. Indirect exporting includes the use of several types of intermediaries located in the domestic market or independent middlemen to market the firm’s products overseas. The most common types of middlemen are manufacturer’s export agents, wholesalers, brokers, the export merchant, the export commission house, the trading company, and the piggyback exporter (Kotabe & Helsen 2004: 512).

The middlemen are responsible for marketing the firm’s products through the networks of their distributors and their own sales force (Jeannet & Hennessey, 2004:293). The major advantage of using middlemen is their knowledge of the foreign market environment and readily available expertise.

A wholesaler is a well used middleman in many markets. But the wholesaler varies from market to market and country to country. The major difference of the wholesalers is the size of the wholesalers in a market. Generally, in the developed countries, the market has several large-scale wholesalers or wholesaling organisations. They serve a large number of retailers, but in developing countries, like South Africa and China, the markets have many small wholesalers or firms covering a small number of retailers (Terpstra & Sarathy, 2000:415).
For example, Finland is a developed country, having the most concentrated wholesaling operations globally. Four biggest groups share the most of the market wholesale trade. The largest wholesaler, Kesko (the Wholesale Company of Finnish Retailers), accounts for over twenty percent of the market and has 11,000 retailers in Finland. On the other hand, India, a developing country, has thousands of small wholesalers covering hundreds of thousands of small retailers. There is an agent normally standing between the manufacturer and wholesalers, which is an additional step in the product selling channel comparing with a developed market (Terpstra & Sarathy, 2000:415).

Indirect exporting is a common entry strategy when a company's products are not cost-effective for an exporter to set up its own export department. With the help of middlemen, the company can spend more time on focusing on product development and production.

2.2.2 Direct exporting

Direct exporting means a company or exporter exports directly to local distributors or importers without the middlemen.

Direct export requires exporters to have a larger degree of expertise in exporting and knowledge of the foreign market. With direct exporting, exporters need to deal with many orders from different countries or from different distributors (Jeannet & Hennessey, 2004:293). The advantage of direct exporting is that unlike indirect exporting, it can control its distribution channels.
To be successful, the exporter will need to build up a solid foundation with the local distributor or importer and have a long-term relationship. This will save sizeable investment costs and reduce the turnover cycle.

2.3 FOREIGN PRODUCTION

Only exporting to a foreign market is sometimes not enough. In order to serve local customers better and obtain more market shares, many companies enter a new market by several manufacturing arrangements, like licensing, franchising, contract manufacturing, assembly, and fully integrated production (Jeannet & Hennessey, 2004:294).

Nowadays, many sports-shoe companies (including world leading footwear companies like Nike, Adidas, Reebok, New Balance, Puma, And1 and Oakley) have subcontractors in Taiwan, China and Thailand (Kotabe & Helsen 2004:317). This strategy minimizes total cost and maximizes product quality. For example, most of the Nike shoes designed in the United States are produced in other countries.

Licensing, franchising, and building a local manufacturing base are the three popular entry strategies. Each one has its own strength and weakness as will be introduced below.

2.3.1 Licensing

Licensing is a market entry strategy for companies who sign the right of a patent, (which protects a product, technology or process), or a trademark (which protects a product name) to another company for a fee or royalty (Jeannet & Hennessey 2004:294). The company can make a major investment by using
licensing as a method of market entry. The foreign licensee will take care of all the capital investments including machinery, inventory, site selection, and employees, while the licensor needs to meet the assigned sales territories. Licensing agreements vary from company to company and from industry to industry. A licence agreement can be negotiated between a company and a licensee (Jeannet & Hennessey 2004:295).

An example of licensing is that about fifty percent of the drugs sold in Japan are produced under licence from European and United States companies. Coca-Cola, for example, has licensed its brand name to more than three thousand products which are marketed by 200 licensees in thirty countries (Onkvisit & Shaw, 2004:249). Playboy, Disney and some French designers are also examples of a successful licensing strategy.

The advantages and disadvantages of licensing are given below according to Jeannet and Hennessey (2004:295).

The advantages include:

- Helping a company with little knowledge or time to engage in the new market.
- Avoiding the potential political and economic risk associated with investment in fixed facilities.
- Licensing is useful when the market potential of the target country is not big enough to support a manufacturing operation.
- A licensee can increase the licensed product’s volume to an ongoing operation.
- Licensing can save a company’s capital and time when entering a new market by allowing the company to concentrate on a more profitable market.
In addition, licensing also works well when transportation cost is high relative to product value (Onkvisit & Shaw, 2004:249).

There are, however, also a few disadvantages to licensing. The major disadvantage is that the income of the company is dependent on the local licensee. Maximising profit through licensing will be difficult. Licensing may be the least profitable of all entry strategies. Another worry is the possibility of nurturing a potential competitor. Usually, licensing needs to be limited to a specific time period, and a company must protect against the licensee using the same technology independently after licensing period (Onkvisit & Shaw, 2004:250).

Normally, the licensing fee may change depending on a product from one percent to twenty percent of sales. When the licensing fee exceeds the return of other entry strategies (such as exporting, local manufacturing), licensing would be considered as an entry strategy (Jeannet & Hennessey 2004:296).

2.3.2 Franchising

Franchising is one of the popular entry strategies in the international market. The familiar fast food companies (for instance, McDonald’s, Kentucky, Krispy Kreme Doughnuts, Wimpy), and service companies (such as Holiday Inn, Hertz, Manpower) are all companies successfully using franchising as an entry strategy to foreign markets.

Franchising is a special mode of licensing. A franchisor provides a franchisee with the right to use the franchisor’s trade names, logo, business models, and a package including the market plan, operation manuals, standards, training, and
quality monitoring (Kotabe & Helsen 2004:275). The franchisee pays a royalty and a certain percentage of sales in return.

To seize opportunities in foreign markets, franchising is often a good choice. Generally, there is a master franchise holder between the franchisor and local franchisees. Usually, the master franchise holder has the power to establish a certain number of outlets in a given area. The master franchise holder will sell local franchises within his territory, which could be a country or many countries.

The benefits of franchising are prominent. Firstly, a company can expand its business in a foreign market on a winning business model with a minimum investment and low political risk. Furthermore, since the earning of the franchisee is tied to product sales, the franchisees are generally enthusiastic (Kotabe & Helsen 2004:278).

A major concern of franchising is the lack of supervision of the franchisees’ operation. Additionally, finding the right master franchise holder is also very important. The franchisee may increase the franchising, but may also block the market entry (Onkvisit & Shaw, 2004:252).

2.3.3 Offshore production

Building a manufacturing base directly in the target market will have many advantages, such as reducing production costs, avoiding tariffs, and sometimes obtaining preferential policy. This entry strategy may be engaged by contract manufacturing, assembly, or fully integrated production (Jeannet & Hennessey 2004:297). As a cost saving strategy has been adapted nowadays by many companies, building a factory in a new market is not necessary anymore. Many
international firms set up their manufacturing bases in Taiwan, China, India, Thailand and Vietnam due to the cost saving consideration.

Some countries set up multiform barriers to protect their manufacturers from the foreign firm competition. In this case, the contract manufacturing or assembling option will have several advantages. Contract manufacturing means that the company contracts with a local firm to manufacture parts of products or even entire products. The local firm’s responsibility is restricted to production (Jeannet & Hennessey 2004:298).

Contract manufacturing is suitable for a country with a small market and high barriers such as some countries in Africa, Central America, and Asia.

2.4 OWNERSHIP ENTRY STRATEGIES

After a firm has decided to enter a foreign market, it has to make an ownership decision on which ownership to use for that market. Ownership is defined as the percent equity holding taken when a foreign investment is made (Sung, 2003). What kind of ownership should a firm choose? A Wholly owned subsidiary, a joint venture and strategic alliances are some available choices. Aspects of the institutional environment can have direct and indirect effects on a foreign firm’s ownership strategy (Kotabe & Helsen 2004:279)

2.4.1 Joint venture

Many successful multinational corporations expand their global operations by joint ventures. According to Investopedia (2006), joint venture means “the cooperation of two or more individuals or businesses-each agreeing to share profit, loss and control-in a specific enterprise.”
Joint venture is a good way for companies to partner without having to merge. Joint venture is typically taxed as a partnership (Investopedia, 2006) and a major advantage of a joint ventures, compared to licensing, is its return potential (Kotabe & Helsen 2004:280). Licensing only needs to pay a certain amount of royalty but in a joint venture the partners share the profit. Furthermore, a joint venture gives more control over the operations than licensing, franchising, and indirect or direct export. For instance, the world wide USA-based McDonalds owns half of McDonald’s Holdings in Japan.

As with licensing, a firm in a joint venture has the potential risk that his partner may become a future competitor. Additionally, trust and mutual conflicts need careful attention from the beginning of a joint venture.

According to Kotable and Helsen (2004:282) some factors concluded from past joint venture experience need to be considered:

- Choosing the right partner, who has compatible goals with similar size and resources (the more balanced contributions the partners provided, the more trust and the more harmonious the relationships will be);
- Establishing unambiguous objectives for the joint venture;
- Bridging cultural gaps between partners;
- Building up good communication for the joint venture’s top managers;

Firms often like to use joint ventures as an entry strategy when they enter markets that are characterized by high legal restrictions or high levels of investment risks (Keith, 2002:211).
2.4.2 Merger and acquisition

Around the world, many multinational companies have the experience of acquisition. Sometimes the acquisition route is quicker than building a base from zero. For relative latecomers to a same industry, merger and acquisition is a good practical method to obtain local known brand names (Jeannet & Hennessey, 2004:308). Merger and acquisition save the latecomer's time and advertisement cost and also provide distribution systems. Moreover, it is even possible to enter an anti-foreign market through merger and acquisition.

2.4.3 Strategic alliances

The well-recognized entry strategies explained above are: direct and indirect exporting, licensing, franchising, contract manufacturing, assembly, fully integrated production, wholly owned subsidiary, and joint venture. However, more and more firms are using cooperative agreements called strategic alliances. These are developed from the above well recognized entry strategies. Murray and Mahon (1993:105) more formally, define the strategic alliances as “a coalition of two or more organizations to achieve strategically significant goals that are mutually beneficial.” In other words, strategic alliances may be more of a contractual arrangement of two or more partners, who agree to cooperate with each other and use each partner’s resources and expertise to enter a particular market.

Three familiar types of strategic alliances include: shared distribution, licensed manufacturing, and research and development alliances (Johny, 1995). Soho Natural Soda, a producer of natural carbonated beverages, operated out of a Brooklyn kitchen. Without a capital to build up a factory, rent a place or operate any bottling facilities at the beginning, Soho Natural Soda persuaded a regional
beer company to use its excess capacity to bottle its beverages. Soho then got brewer Anheuser-Busch to distribute its products. After 11 years Soho Natural Soda grew from a kitchen table to $11 million in sales, who spent only a little overhead and cost (The Partnering Executives Association, 2005). Soho Natural Soda is an example of successfully using strategic alliances as an entry strategy to a new market.

Another example is that of Motorola and In-Focus when they joined to enter the Japanese market. Motorola and In-Focus Systems saw an opportunity to gain a share in the burgeoning worldwide market for high-performance video display panels. In-Focus developed a new technology with good performance but low cost. Motorola purchased twenty percent interest from In-Focus. They then formed a half owned joint venture to build display panels incorporating In-Focus's technology into Motorola's integrated circuits. In-Focus obtained its needed capital, a key customer, and an access to Motorola's international distribution manufacturing capabilities, while Motorola locked in a strategic technology that it was unable to develop internally. On the other hand, the advanced technology increased Motorola's sales in the Japanese market (The Partnering Executives Association, 2005).

2.5 DECISION CRITERIA FOR MODE OF ENTRY

The identification of an appropriate overseas market and a suitable segment needs investigation and analysis by the following considerations (Jeannet & Hennessey, 2004: 509):

- Socioeconomic characteristics (demographic, economic, geographic, and climatic characteristics).
- Political and legal characteristics.
- Financial conditions.
- Consumer variables (lifestyle, preferences, culture, taste, purchase behaviour, and purchase frequency).

Figure 2.2 Considerations for market entry decisions

Source: Adapted from Jeannet & Hennessey, 2004:311

According to Jeannet and Hennessey (2004: 268), as stated in the Figure 2.2 above, many considerations will impact the decision of an entry strategy. Generally speaking, all of the decision criteria can be divided into two parts: external (environment specific) and internal (firm specific). The external environment specific includes Market size and growth, Risk (social pressures and political risk and economic environment risk), Government regulations,
Competitive environment and Local infrastructure. The internal decision criteria include company objectives, need for control, internal resources, assets and capabilities, and also flexibility, as Figure 2.3 shows below:

Figure 2. 3 Decision criteria for mode of entry strategy

2.5.1 Market size and growth

First of all the external considerations is the size and the growth of a market. Future market potential and the current size of the market are the main considerations of an entry decision. A large market or a huge potential market will absorb a firm to entry the market by a joint venture or wholly owned subsidiaries (Kotable & Helsen, 2004:144).
2.5.2 Risk

The political environment in a country is consistently changing. Social pressures can affect a government to make new laws or amend old policies. Sometimes, policies that support a foreign firm may change toward opposition, isolationism or nationalism (Kotable & Helsen, 2004:144).

2.5.3 Government regulations

Government regulations are also a major factor in the choice of an entry strategy. In many countries, government regulations influence seriously the decision of an entry strategy. A country’s trade barriers and regulations sometimes leave few choices of entry strategies for an international firm (Keith, 2002:213).

2.5.4 Competitive environment

The purpose of a competitive environment analysis is to realize the strengths and the weaknesses of the competitors within a market and also find the opportunity and the threat of a business.

The first step in a competitor analysis is to identify the current and the potential competitors. There are two ways to identify competitors. One is to look at a market from the customer's view and group all your competitors along with their market shares. The other method is to group competitors according to their various competitive strategies (Lamb, Hair & McDaniel 1994: 704).

After the competitors were grouped, the competitors’ strategies can be analyzed and a firm can identify the areas where they have strengths and weakness. A competitor's strengths and weaknesses are usually based on the presence and the absence of key assets and skills needed to compete in a market.
2.5.5 Local infrastructure

The physical local infrastructure includes a country’s transport system, a communication system and a country’s distribution system. Entry strategies are various according to a market which has dissimilar local infrastructures.

A mature and established country like South Korea, Taiwan, and Japan has fewer growth prospects in the market. Normally, these local competitors are well-entrenched; with these countries having a fairly large middle class and well developed infrastructure. The strategic alliances or acquisition of a local company are some suitable choices of a entry strategy for late or new comers in these mature and established markets (Kotable & Helsen, 2004:269).

In general, according to Kotable and Helsen (2004:269), the poorer the local infrastructure is in a market, the more hesitant the company is to invest in it.

The internal considerations include company objectives, need for control, internal resources, assets and capabilities, and flexibility. These internal considerations explain in the following paragraph.

2.5.6 Company objectives

A company’s objective does heavily influence its entry strategy to a foreign market. To be a world business leader, or to take certain a percentage share of a market, companies will choose an entry strategy with flexibility and control which can help them achieve their goals (Kotable & Helsen, 2004:270).
2.5.7 Need for control

Most of the multi-national companies have some control over their foreign operations. The control may include pricing, marketing, advertising, positioning, operations, quality control and promotion. Some countries, such as China and North Korea, own certain assets (Kotable & Helsen, 2004:142). The national ownership assets in China include the lands, the woods, the water and the mineral wealth, which will not be sold to foreigners. A number of countries also control the ownership of the companies in several fields (such as the media, and the power company companies in China).

2.5.8 Internal resources, assets and capabilities

Does the company have competitive business operation system? Does the company have the capability to enter a new market with the current employees and capital? Will the entry to a new market influence the current main market? These are all the critical concerns before making the strategic entry decision. When the company lacks some of the factors, the firm can try to avoid the weakness by forming strategic alliances (Kotable & Helsen, 2004:271).

2.5.9 Flexibility

Government regulation is changing regularly. The current products will someday be outdated. Modern techniques are progressing all the time. The markets around the world never stop altering. From the above facts, it can be concluded that the best strategy for an international company is the one suitable for the current and future market environment, which has the flexibility to be amended at any moment.
2.6 SUMMARY

This chapter introduces some of the popular entry strategies and provides some examples. Each multinational company has its own suitable entry strategy to a foreign market. Andersen (1993:225) has specified the four stages of internationalization for a common international company:

- Firstly, no regular export activities;
- Secondly, exporting via independent representatives (agent);
- Thirdly, establishment of an overseas sales subsidiary;
- Finally, overseas production/manufacturing.

The above four stages of an internationalization were general procedures for the early international firms. But nowadays, under the global complex market surroundings, new entry strategies—strategic alliances have been developed. Strategic alliances come in all different types and formats. It does not follow the procedure of the above four stages. The strategic alliances vary depending on the skills brought in by the partners.

Every firm has its own strength, weakness and each market has its own opportunities and threats. None of the entry strategies will be suitable for all the market or even one market for a certain period. The amending strategy along with the changing of a market environment is the right strategy for the market.
CHAPTER 3 THE SOUTH AFRICAN MARKET ENVIRONMENT

3.1 INTRODUCTION

South Africa (SA) situates the end of the African continent. It has a sophisticated infrastructure and a modern transportation network. The gross domestic product (GDP) of SA is four times the total GDP of its four southern African neighbours and comprises around a quarter of the entire African continent's GDP. SA plays a leading role in most of the southern African economy. A number of neighbouring countries' currencies are linked to the South African Rand (ZAR), which has a prominent influence in the southern Africa regional economy (Safrica, 2006e).

SA produces forty percent of total industrial output, forty-five percent of the mineral production of the African continent and also generates over fifty percent of African electricity (Safrica, 2006e). For international firms, who consider sharing the African market in the long term, the South African market is a good first choice.

Between SA and China there is not only physical distance, but also cultural gaps and misunderstandings. From the researcher's personal experience, many South Africans think that China is a poor and dirty country; and often their knowledge of the Chinese is limited to ideas about their skills in the martial arts and their unusual eating habits. The knowledge that many Chinese have about SA is also astonishing. Does South Africa mean Southern Africa? Are there elephants and monkeys still walking around on the streets? Are the people there still starving? What language do they speak? With the improper knowledge of
the two countries’ inhabitants, it is difficult to build a good business relation between China and SA.

The following sections study the environment of the South African market. The main focuses will relate to foreign investment in the South African sports-shoe market.

3.2 THE SOUTH AFRICAN ECONOMY

South Africa is in many respects a developed country, but most of its population live in poverty (U.S. Department of State, 2005). It is a middle-income and developing country and has an abundant supply of natural resources, well-developed financial, legal, communications, energy, and transport sectors. Its Johannesburg Stock Exchange (JSE) ranks as one of the 10 largest in the world (U.S. Department of State, 2005).

3.2.1 Overview of the South African economy

SA has a problem of unemployment, because during 2005, SA had 25.3 percent unemployment (South Africa Place, 2006). However the United States’ unemployment rate was only 4.7 percent in January 2006 (Fiscal Study, 2006) and that of Japan was 4.5 percent in October 2005 (Softpedia, 2006). In Chinese urban areas in 2004 the official registered unemployment rate was 4.2 percent and including rural areas for 2003 totalled 20 percent (The World Factbook, 2006a) (see Table 3.1 below). As can be seen, the unemployment rate of SA is nearly four times as high as that of Japan or the United states.
Table 3.1 Unemployment rates in four countries

<table>
<thead>
<tr>
<th>Nation</th>
<th>Year</th>
<th>Unemployment(percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>¹China</td>
<td>2004; 2003</td>
<td>4.3(Urban); 20(total)</td>
</tr>
<tr>
<td>²Japan</td>
<td>October 2005</td>
<td>4.5%</td>
</tr>
<tr>
<td>³South Africa</td>
<td>2006</td>
<td>25.3%</td>
</tr>
<tr>
<td>⁴United States</td>
<td>January 2006</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

Sources Adapted from: ¹ The World Factbook 2006a; ² Softpedia 2006; ³ South Africa Place, 2006; ⁴ Fiscal Study 2006.

According to Safrica (2006b), the South African government is trying to build the country with an open and privatized market and a favourable investment climate with the release of its macro-economic strategy in June 1996. This strategy called Growth, Employment and Redistribution is explained by Safrica (2006b) as follows:

“This policy framework includes the introduction of tax incentives to stimulate new investment in labour-intensive projects, expansion of basic infrastructure services, the restructuring and partial privatization of state assets, continued reduction of tariffs, subsidies to promote economic efficiency, improved services to the disadvantaged, and integration into the global economy” (South Africa Government Information, 2006).

From September 1999 to June 2005, the averaged annual economic growth rate is 3.5 percent. But before 1994, average economic growth was less than one percent per year (South Africa Government Information, 2006). The South African economy has done better recently (see Table 3.2 below). The real GDP
has grown gradually from 2.7 percent at 2001 to 4.3 percent at 2005. In particular, the unemployment rate has decreased from 29.5 percent in 2001 to 25.3 percent in 2005.

Table 3.2 South Africa: selected indicators from 2001 to 2005

<table>
<thead>
<tr>
<th>SA: Selected Economic Indicators</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP</td>
<td>2.7%</td>
<td>3.6%</td>
<td>2.8%</td>
<td>3.7%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Unemployment</td>
<td>29.5%</td>
<td>30.5%</td>
<td>28.2%</td>
<td>26.2%</td>
<td>25.3%</td>
</tr>
<tr>
<td>National debt</td>
<td>41.1%</td>
<td>37.1%</td>
<td>35.7%</td>
<td>35.8%</td>
<td>35.1%</td>
</tr>
<tr>
<td>External current account balance</td>
<td>0.1%</td>
<td>0.7%</td>
<td>-1.5%</td>
<td>-3.2%</td>
<td>-3.7%</td>
</tr>
<tr>
<td>External debt</td>
<td>26%</td>
<td>29.5%</td>
<td>22.4%</td>
<td>19.8%</td>
<td>19.1%</td>
</tr>
<tr>
<td>Gross reserves (in months of total imports)</td>
<td>2.9</td>
<td>2.8</td>
<td>2.2</td>
<td>3.1</td>
<td>3.7</td>
</tr>
<tr>
<td>US$ exchange rate (in Rand)</td>
<td>12.13</td>
<td>8.64</td>
<td>6.64</td>
<td>5.64</td>
<td>...</td>
</tr>
</tbody>
</table>

Source: South African Reserve Bank, 2005

Since the year of 2004, the South African Government has issued its Accelerated and Shared Growth Initiative for South Africa (AsgiSA) to reach the objectives of halving poverty and unemployment by 2014. AsgiSA is the government's interventions to help the country grow the economy by five percent on average between 2004 and 2014, reach the goal of reducing unemployment to below 15 percent and also halve the poverty rate to less than one-sixth of households in 2014.
According to the capabilities of the economy and the international environment, AsgiSA has set a two-phase target. In the first phase, between 2005 and 2009, an annual averages growth rate will be 4.5 percent or higher. In the second phase, between 2010 and 2014, an average growth rate of at least six percent of gross domestic product (GDP) will be achieved (South Africa Government Information, 2006).

Another important intervention of AsgiSA is to reduce the South African historical inequalities since successful measures to reduce the inequalities will add impetus to growth of the South African economy (South Africa Government Information, 2006).

3.2.1.1 The South African business environment

How is the South African business environment? In the year 2005, 155 countries had been studied on the Ease of Doing Business, Starting a Business, Dealing with Licenses, Hiring and Firing, Registering Property, and Getting Credit in Doing Business by the World Bank (2006). The countries had been ranked from 1 to 155. The lower the ranking according to the table, the better the company does in the relative field (see Table 3.3 below for an example of nine countries’ listing).
Table 3.3 Business environment ranking

<table>
<thead>
<tr>
<th>Country</th>
<th>Ease of Doing Business</th>
<th>Starting a Business</th>
<th>Dealing with Licenses</th>
<th>Hiring and Firing</th>
<th>Registering Property</th>
<th>Getting Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong (China)</td>
<td>7</td>
<td>6</td>
<td>77</td>
<td>3</td>
<td>70</td>
<td>2</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>United States</td>
<td>3</td>
<td>3</td>
<td>17</td>
<td>6</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>Germany</td>
<td>19</td>
<td>47</td>
<td>20</td>
<td>131</td>
<td>33</td>
<td>5</td>
</tr>
<tr>
<td>Singapore</td>
<td>2</td>
<td>5</td>
<td>7</td>
<td>7</td>
<td>14</td>
<td>8</td>
</tr>
<tr>
<td>South Africa</td>
<td>28</td>
<td>51</td>
<td>37</td>
<td>66</td>
<td>77</td>
<td>40</td>
</tr>
<tr>
<td>India</td>
<td>116</td>
<td>90</td>
<td>124</td>
<td>116</td>
<td>101</td>
<td>84</td>
</tr>
<tr>
<td>China</td>
<td>91</td>
<td>126</td>
<td>136</td>
<td>87</td>
<td>24</td>
<td>113</td>
</tr>
<tr>
<td>Nigeria</td>
<td>94</td>
<td>105</td>
<td>117</td>
<td>27</td>
<td>152</td>
<td>38</td>
</tr>
</tbody>
</table>

Source: Adapted from World Bank, 2006.

As can be seen in the Table 3.3, of the 155 countries, South Africa ranked 28 for Ease of Doing Business, 51 for Starting a Business, 37 for Dealing with Licenses, and 40 for Getting Credit in Doing Business. These rankings are worse than those of Hong Kong, New Zealand, United States, Germany and Singapore, but much better than those of China, India, and Nigeria. Comparing with most of the developing countries, South Africa does have advantages in these six aspects. But with regard to Hiring and Firing employees and Registering Property, SA is ranked high, meaning that these activities are more difficult to do in SA than those of Hong Kong, New Zealand, United States, Germany and Singapore (World Bank, 2006).
3.2.1.2 The future of the South African economy

With regard to the future of the South African economy and what South Africans think about it, research was conducted amongst 7 000 owners of medium sized businesses who employed 50 to 250 employees in thirty countries by Grant Thornton (2006). According to the International Business Owners Survey, 80 percent of South African business owners are optimistic about the future years of the South African economy and SA is the third most optimistic country internationally (see Figure 3.1a.). The business owners’ confidence in the economy internationally (see Figure 3.1b.) shows that in the years from 2003 to 2006, South Africans continue the trend of being considerably more optimistic than the global average (Grant Thornton, 2006).

The favourable results from the Grant Thornton survey are listed below (The World bank, 2006):

- Most firms believe that the South African courts can protect their property rights and that court cases are resolved quickly.
- Losses due to power outages were relatively modest in 2004 and the cost of power in SA is lower than the international average.
- Tax rates are currently low and are continually declining.
- The burden of regulation in SA is low compared with that of most middle-income countries.
- Few firms reported that they need to pay bribes to obtain government services or win government contracts.
- Finally, most of the large formal firms in the Investment Climate Survey thought that access to finance is not a serious concern and few reported that they were credit-constrained.
Figure 3.1a. Business owners’ confidence in the economy internationally

b. South Africa vs. global optimism – 4 years trend.

Sources: Available from Grant Thornton 2006

Notes: Figures are the percentage balance between optimistic and pessimistic responses.
Furthermore, the large South African firms are more productive than most firms in other developing countries, where Investment Climate Surveys have been conducted, for example in Senegal, Kenya, Lithuania, Brazil, Poland, and Malaysia. The South African productivity is over three times higher than it is in China in general, but slightly lower than it is in the most productive Chinese cities (World Bank, 2006).

The International Monetary Fund (IMF), in its 2005 Annual Country Assessment, commented that (Grant Thornton, 2006) “The economy is now growing strongly, inflation has been lowered and has become more predictable, public finances have been strengthened, and the external position has improved markedly. The expansion in economic activity has created additional jobs.”

Besides the authorization by IMF and the World Bank, the following section present details of the South African economic environment.

3.2.2 Distribution and sales in South Africa

SA possesses a variety of methods for foreign suppliers to distribute and sell their products, as Figure 3.2 shows below. This includes: using an agent or a distributor, selling through established wholesalers or dealers, selling directly to department stores or other retailers, or establishing a branch or subsidiary with its own sales force (South Africa information, 2006).
3.2.2.1 Wholesaler

A wholesaler understand its market environment and its distribution channels (Terpstra & Sarathy, 2000:415), but the responsibilities of a wholesaler vary in different markets according to its size. These responsibilities can be advertising, warranty, product liability, market research, contracting with dealers, product demonstrations and dealer training (Terpstra & Sarathy, 2000:415).

SA is a developing country. But in the wholesale field, it has leading international companies. Makro Cash & Carry, a Dutch firm, by far the leading wholesaler company in the world, has many subsidiaries in major cities in SA. Most of the commodities sold in Makro have competitive prices (Makro, 2006).
3.2.2.2 Consumer retail

SA offers the full spectrum of retail outlets: neighbourhood convenience stores; small general dealers; specialty stores handling a single product line (such as clothing, electronics, or furniture); exclusive boutiques; chain stores (groceries, clothing, toiletries, household goods); department stores; cash and carry wholesale-retail outlets; and co-operative stores serving rural areas.

Supermarkets and hypermarkets are major phenomena in SA and sell large quantities of almost all consumer goods on a self-serve basis. They have expanded all over the country. They purchase directly from manufacturers and bypass the wholesaler, with low margins and high turnover.

The Shoprite Group of Companies is the biggest retailer in South Africa. It sells to consumers of all income levels and operates 825 corporate outlets in 18 countries across Africa, the Indian Ocean Islands and southern Asia. Its stores tend to be stand-alones or are sited in downtown shopping areas. Sixty percent of each store is devoted to food. Shoprite’s Cape Town headquarters deals directly with foreign suppliers. The mission of the Shoprite Group is to “provide all communities in Africa with food and household items in a first-world shopping environment, at the lowest prices” (Shoprite, 2006).

Pick ‘n Pay has middle to high income consumers with in-store delicatessens, espresso bars and ATM machines. Its stores are located within an enclosed shopping centre. Regional managers can make import decisions, except for chain-wide items such as private-label brands, which are decided at the company’s headquarters in Cape Town. Pick ‘n Pay also sell clothes and shoes in small quantities (Pick ‘n Pay, 2006).
Woolworths is a chain of clothing and linen department stores and also sells upscale fresh food. Woolworths’ customers pay premiums for high-quality products. Primarily Woolworths sells to middle to high income earners. Many products in Woolworths are imported. Import decisions are made at Cape Town headquarters (Woolworths, 2006).

South African consumers trust Woolworths, Truthworths, Edgars and other many well-known shops, since they have build their reputation for their good product quality and nice after service.

3.2.2.3 After-sales agents

Products with a technical nature may need to appoint an official after-sales agent in a market. An official after-sales agent can be a company, which acts as the certified service agent. Appointing an appropriate after-sales agent is important in ensuring that the product develops a respected reputation in the South African market (South Africa information, 2006).

3.2.2.4 Agents and distributors

In the South African market an agent who knows a market well is a key consideration. The South African business sectors are relatively small, and companies have established their own methods of procurement which vary from sector to sector. According to the US Commercial Service (2005), appointing an agent in each of the larger cities to cover each of the respective provinces is suggested for a foreign company.
A distributor is a general buyer who holds stock of a product. The distributor is usually granted an exclusive right to sell the product in a specific area or to a particular type of customer. An agreement with a distributor and an agent is similar, except that the price and the delivery terms are different. Customarily, an agent deals with many distributors for a company in a particular area. The distributors stock the products from the relative agent (US Commercial Service, 2005).

3.2.3 Transport network

Contemporary production and consumption need a well-developed and well operated transport system. A good logistics system also requires a reliable transport network, which is a crucial key in supply chain management businesses. A competitive transport network will save production costs and delivery time for a company.

SA has a modern infrastructure. There is a well-maintained network of roads and motorways in populous regions. Thirty percent of the roads are paved. It supports an efficient distribution of goods to major urban centres throughout the region (South Africa Places, 2006). This modern infrastructure makes the South African exports and imports more cost-attractive, a particularly important factor in the world of competitive globalisation.

The South African coastline has seven commercial shipping ports in the south Atlantic and Indian oceans. They are by far the largest, best equipped and most efficient network on the African continent. Approximately 98 percent of the South African exports are by sea transportation. These commercial ports play a crucial

Spoornet and the SA Rail Commuter Corporation (SARCC) control the South African rail networks. They provide goods, container services as well as long distance passenger in seven regions: Durban, Cape Town, Port Elizabeth, Pretoria, East London, Berlin (Uitenhage) and Witwatersrand Greater Johannesburg (Safrika, 2006a).

3.2.4 Tariffs

The Department of Trade and Industry (2006) states that SA has significantly reduced its number of tariff lines and these are bound mostly to WTO binding levels. SA has cut back tariff lines from the 80 different levels of the past to eight levels ranging from zero to 30 percent with a few exceptions, notably in clothing and textiles and motor industry manufacturers. The general trend is to reduce tariffs to encourage industries to become more competitive (Safrika, 2006d).

3.2.5 Value added tax

The value-added tax (VAT) is fourteen percent. The VAT is payable on most of the imports, but the goods imported for use in manufacturing or resale by registered traders are free from VAT (DTI, 2006).

3.2.6 Exchange controls

Currently, ZAR is the only legal currency used in the domestic market, but the South African government aims to ultimately remove all exchange controls (Safrika, 2006d).
The exchange controls are administered by the South African Reserve Bank's Exchange Control Department through commercial banks, which are authorised to deal in foreign exchange. All international commercial transactions must go through these authorised foreign exchange dealers (Safrica, 2006d).

3.2.7 South African currency

SA has a strong macro-economic performance with modest GDP growth and moderate inflation. However, according to the World Bank (2006) about one third of enterprise managers say that macro-economic instability is a serious problem. This is due to exchange rate instability. The exchange history of the past five years shows that in 2001 $1 equalled to R12.13, but in 2004 only R5.64, a drop of more than half (South Africa reserve bank, 2005). ZAR has been one of the most unstable of the World’s major currencies and worries the international companies. For example, this is problematic for the exporters, who receive payments in dollars or euros, but pay their employees and suppliers in rand (World Bank, 2006).

For long term international import and export, the stable value of a currency is important. Using international currencies, such as US Dollar or the Euro, will decrease the risk of the unstable ZAR (World Bank, 2006).

3.2.8 Legal environments

Trademarks can be registered and are offered protection through law. Counterfeit brand goods are regularly seized and destroyed by customs officials. Firms can be assured that their trademark and sporting goods will enjoy the protection of the South African law (DTI, 2006).
The DTI has representatives in countries that are regarded as important trading partners (such as the United States, Japan, Germany, France, Korea and China) and that can assist a company in its preparation for trade in SA (The World Bank, 2006).

3.2.9 Political environment

The peaceful elections of 1994 marked the beginning of political stability in SA. The last decade has been one of new democracy for the country. The current President, Thabo Mbeki, started his crusade for an African Renaissance, when he was Vice President. The vision of an African Renaissance is that the entire African continent benefit from economic increases through the political and financial stability of the entire Southern African region. This process is being pursued actively through the establishment of The New Partnership for African Development (NEPAD) (Ezeoha and Uche, 2005:27).

3.2.10 Crime

The Businessman in SA believes that the crime is a major problem. Direct losses due to the crime and the cost of security are higher in SA than they are in some of the developing countries such as China, Poland, Brazil and even Russia (World Bank, 2006).

According to a survey for the period 1998 to 2000 compiled by the United Nations, South Africa ranked first for murder by firearm per capita and rapes per capita. It was also number two for assault and murder (by all means) per capita, but the total crime per capita is 10th out of the 60 countries in the survey (National Master, 2002). As the ranking results shows, crime in SA is a worry for most of the foreign companies.
3.3 SOCIAL CULTURE

A social culture influences the determinants of a marketing behaviour and reveals the demand of a market as well. South Africa and China have different social cultures in many aspects but also has similarities. There are 73 elements of culture counted by Terpstra and Sarathy (2000:91), but the following areas have the major relations to sports-shoe market, including people, social culture, religion, attitudes and values, and sport.

3.3.1 People

According to the mid-2005 estimates of Statistics South Africa (2005), the total population of SA is 46.9 million and 64.5 percent of population is between 15 and 64 years old and only 5.2 percent of that is 65 years and older (see Table 3.4 below) (The World Factbook, 2006b).

Table 3.4 Age structure

<table>
<thead>
<tr>
<th>Age structure</th>
<th>Percent</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-14 years</td>
<td>30.3%</td>
<td>6,760,137</td>
<td>6,682,013</td>
</tr>
<tr>
<td>15-64 years</td>
<td>64.5%</td>
<td>13,860,727</td>
<td>14,750,496</td>
</tr>
<tr>
<td>65 years and over</td>
<td>5.2%</td>
<td>893,360</td>
<td>1,397,403</td>
</tr>
</tbody>
</table>

Sources: Adapted from the World Factbook, 2006a

With regard to race, (see Table 3.5), African shares the 79.4 percent of the total population. Coloured, Indian/Asian and whites each take 8.8, 2.4 and 9.3 percent of the total population respectively in the year of 2005 (Statistics South Africa, 2005).
Africans include: the Nguni people, comprised of the Zulu, Xhosa, Ndebele and Swazi; the Sotho-Tswana people, comprised of the Southern, Northern and Western Sotho (Tswana); the Tsonga; and the Venda (Statistics South Africa, 2005).

Table 3.5 Mid-year population estimates South Africa 2005

<table>
<thead>
<tr>
<th>Population Group</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>African</td>
<td>18,320,400</td>
<td>18,885,300</td>
<td>37,205,700</td>
</tr>
<tr>
<td>Coloured</td>
<td>2,036,700</td>
<td>2,112,100</td>
<td>4,148,800</td>
</tr>
<tr>
<td>Indian/Asian</td>
<td>565,100</td>
<td>588,800</td>
<td>1,153,900</td>
</tr>
<tr>
<td>White</td>
<td>2,148,100</td>
<td>2,231,700</td>
<td>4,379,800</td>
</tr>
<tr>
<td>Total</td>
<td>23,070,300</td>
<td>23,817,900</td>
<td>46,888,200</td>
</tr>
</tbody>
</table>

Sources: Statistics South Africa, 2005.

South African white population descends largely from the colonial immigrants of the late 17th, 18th and 19th centuries like Dutch, German, French Huguenot and British. Linguistically it is divided into Afrikaans and English-speaking groups.

3.3.2 Religion

In terms of religious affiliation, about two-thirds of South Africans are Christian, mainly Protestant. They belong to a variety of churches, including many that combine Christian and traditional African beliefs. Many non-Christians espouse
these traditional beliefs. Other significant religions are Islam, Hinduism and Judaism (see Table 3.6 below) (Statistics South Africa, 2005).

Table 3.1 Census of South African religion 2001

<table>
<thead>
<tr>
<th>Religion</th>
<th>Percent</th>
<th>Religion</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zion Christian</td>
<td>11.1%</td>
<td>other Christian</td>
<td>36%</td>
</tr>
<tr>
<td>Pentecostal/Charismatic,</td>
<td>8.2%</td>
<td>Anglican</td>
<td>3.8%</td>
</tr>
<tr>
<td>Catholic</td>
<td>7.1%</td>
<td>Islam</td>
<td>1.5%</td>
</tr>
<tr>
<td>Methodist</td>
<td>6.8%</td>
<td>none</td>
<td>15.1%</td>
</tr>
<tr>
<td>Dutch Reformed</td>
<td>6.7%</td>
<td>other</td>
<td>2.3%</td>
</tr>
<tr>
<td>unspecified</td>
<td>1.4%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Adapted from World Factbook, 2006b

The religion has impacts on a customer's buying decision of a product. Terpstra and Sarathy (2000:108) conclude some religion impacts in the following:

- Religious holidays vary for similar religions in different countries;
- Consumption patterns may vary by the religious requirements and taboos;
- A religious belief affects the economic role of woman;
- Religious divisions in a country can have problems for management in a company. The firm may meet problems dealing with his employees and customers.

The international company needs to be aware of the religious differences of the customers, employees, and partners in the South African market.
3.3.3 Social factors

SA has a strong black socialist history and still has a communist political party in the form of the South African Communist Party (SACP). The African National Congress (ANC), who is the ruling party, has strong political ties with the SACP as well as with the trade unions which are inherently socialist in their ideology. While SA through the ANC are pursuing a capitalist macro economic business model (Lemon, 2004: 64-65), the social upliftment of the poor and previously disadvantaged members of the society through the creation of jobs and business opportunities, is a politically important requirement of any business venture in SA.

Both black South Africans and Chinese have strong cultural customs. In SA most of the tribal cultural customs do not form part of doing business, but do form part of modern life even if the ceremonies are changing due to modern lifestyles (Kuzwayo, 2000: ix). The black cultural concept of the extended family or brotherhood is that good friends, cousins and distant relatives are all regarded as brothers and sisters without distinction from actual siblings. It is important at all levels of personal interaction because by developing a strong personal relationship it can place one within the extended family circle (Kuzwayo, 2000: 7).

To the Chinese, cultural customs are integral to doing business and any behaviour or action that is considered to be culturally insensitive may wreck a business deal. The principle of Guanxi (Doole & Lowe, 2001: 105) is similar to the African cultural concept of extended family where personal relationships form the bonds that are considered important. In both cultures the formation of
strong personal bonds paves the way for other interactions such as doing business.

Another social consideration is the level of poverty in the majority of the South African population. If a foreign company intends to sell its products to the broader population of SA, a good understanding of the taste of the major population is needed (US Commercial Service, 2005).

3.3.4 Sports

From a Chinese firm perspective, the South African market is small with a total population of 46.9-million people (Statistics South Africa, 2005) compared with that of 1.3billion people in China (The World Factbook, 2006a), but South Africans enjoy sports especially soccer, rugby, cricket and golf. Local athletics meetings are also generally well attended, but not in the large numbers seen in the previously mentioned sports.

The biggest event in the near future is that South Africa will host the 2010 Soccer World Cup. The event will lead to direct expenditure of R12.7 billion and contribute R21.3 billion to the country's GDP. About 159 000 new employment opportunities will be created. Hosting the Soccer World Cup in South Africa in 2010 will create sizeable direct and indirect economic benefits for the country (Burger, 2005). The South Africa government helps small businesses link to opportunities deriving from the 2010 FIFA World Cup (South Africa Government information, 2006).

The South African climate is mild and lends itself to outdoor sport activity, so sports goods are always in demand. Another important social factor is that the
distribution of the South African population is strongly centred in the major cities. For foreign companies this means logistics can be simplified because it is limited to a small geographic area that is densely populated.

3.3.5 Attitudes and values

A customer makes a decision according to his attitudes and values. It is necessary to find South African attitudes and values by doing some marketing investigation. The products’ quality, fashion, brand and customer’s life style are some main considerable attitudes and values (Terpstra and Sarathy, 2000:110).

3.4 THE LABOUR ENVIRONMENT

The South African labour market has undergone a transformation since 1994 and then the South African government is trying to eliminate the labour inequalities of the past and improve general working conditions for all South Africans (Safrica, 2006c) by the Broad-Based BEE Act no. 53 of 2003 and Government’s Black Economic Empowerment (BEE) Strategy (DTI, 2006).

Government’s strategy for Broad-Based BEE aims to redress the past inequalities and use BEE as a tool to increase the country’s economy, decrease the rate of unemployment and poverty. It includes (DTI, 2006):

- Increasing the number of black people who manage, own and control enterprises and productive assets,
- Facilitating ownership and management of enterprises and productive assets by communities, workers, co-operatives and other collective enterprises,
- Human resource and skills development,
• Achieving equitable representation in all occupational categories and levels in the workforce,
• Preferential procurement, and
• Investment in enterprises that are owned or managed by black people.

However, oversupplied unskilled workers and a shortage of skilled ones are still the current problems in the South African labour market. The South African unemployment rate was about 25.3 percent in 2005. That is a significant decrease from 30.5 percent in February 2002 (see Table 3-2). SA moves away from labour-intensive to capital-intensive operations, this causes the consistent loss of jobs in the formal sector (Safrica, 2006c).

3.4.1 Labour skills and costs

According to Safrica (2006g), many enterprise managers said that a worker’s skill level was a serious obstacle to their enterprises’ operations and growth than any other areas of the investment climate.

Clarke et al (2003: 8) evaluated the average labour cost of different countries. In the year 2002, per worker labour costs in South Africa was about $7 300, but only $2 000 in the most productive areas of China, $2 700 in Brazil, and $4 000 in Malaysia and Poland. South Africa has relatively high labour productivity, but high labour costs mean that unit labour costs are higher in South Africa than in most of the comparator countries (Clarke et al, 2003: 8).

3.4.2 Labour regulation

Rigid labour regulations can discourage firms from hiring new workers and firing an employee. It slows down the growth rate of employment. In South Africa,
labour regulation is a serious problem (Grant Thornton, 2006). Consistent with this, The World Bank (2006) suggests that labour regulation is more rigid in SA than it is in many other middle income countries.

Foreign personnel need a temporary work permit or a permanent resident permit. There are no restrictions as to the number of foreign employees on a company’s payroll. Foreign personnel working in SA are subject to the same employment and living conditions as local residents (DTI, 2006).

3.4.4 Trade Union

SA has 474 registered trade unions with a total membership of 3.8 million. There are three major union federations in SA: the Congress of South African Trade Unions (Cosatu), the Federation of Trade Unions of South Africa (Fedusa) and the National Council of Trade Unions (Nactu). These three federations form the labour constituency at the National Economic Development and Labour Council (Nedlac), together with members representing the state and business interests (Southern African Development Community, 2005).

3.5 INCENTIVES FOR LOCAL AND FOREIGN INVESTMENT

A good policy is important to a country’s economy. The South African government has provided several investment incentives for local and foreign investors in order to increase its economy.

3.5.1 Government incentives

According to Safrica (2006f), the South African government has two basic principles of the economy:
All business sectors are open to investors; no government approval is required;

Few restrictions on the form or extent of the foreign investment, it can be sole proprietorship or partnership.

Safrica (2006f) has also stated: “The current tariff reform programme is specifically aimed at lowering input costs for the producer, while import controls have been relaxed in line with the South African General Agreement on Tariffs and Trade (GATT) and World Trade Organisation (WTO) obligations”.

The Government also provides the following investment supporting programmes to support small and medium sized businesses (Venter, 2003):

- The Black Business Supplier Development Programme (BBSDP) which is an 80:20 cost-sharing, cash grant incentive scheme. It offers support to black-owned enterprises in SA;

- The Critical Infrastructure Fund (CIF) which is cash grant incentive for projects that are designed to improve critical infrastructure in SA. The incentive covers up to thirty percent of the cost of development costs in qualifying infrastructure.

- The Foreign Investment Grant (FIG) which is a cash incentive scheme for foreign investors who invest in new manufacturing businesses in SA. The foreign entrepreneur is compensated for the qualifying costs of moving new machinery and equipment (excluding vehicles) from abroad. The FIG will cover up to 15 percent of the costs of moving new machinery and equipment, to a maximum amount of three million ZAR per entity;

- A Skills Support Programme (SSP) which is a cash grant for skills development. Its objective is to encourage greater investment in training and creating opportunities for the introductions of new advanced skills.
3.5.2 Regulations for importers and exporters

The DTI, as the South African government's key leverage agent for economic development, is empowered to regulate, prohibit or ration imports to SA in the national interest, but most goods can be imported into SA without restrictions from a foreign country. SA is a member of the World Trade Organization (WTO) and follows the Harmonized System (HS) of import classification (DTI, 2006).

There are no trade barriers between SA and the other four countries (Botswana, Lesotho, Namibia, and Swaziland) comprising the Southern African Customs Union (SACU). There will also be substantially free trade between SA and the European Union by 2008 as a result of a Free Trade Agreement (DTI, 2006). When the products have been exported to SA from overseas or been produced locally in SA, they can be traded freely to the other four countries as explained above and will be traded to European Union by 2008 freely as well. For companies, who want to enter the southern African and European market, the South African market is a good entrance.

Import permits are required for specific categories of goods. Traders can apply for an import permit from the Director of Import and Export (DTI, 2006), and then receive it before the arrival date of shipment. Without the required permit, traders will pay penalties. A summary of main import regulations from the DTI are listed below (DTI, 2006):

- Certain goods imported into SA require an import permit, which may be obtained from the Director of Imports and Exports Control.
- The list of goods requiring import permits is specified each year in the annual Import Control Programme.
- Permits are valid for imports from any country.
Foreign Trade Zones: No Foreign Trade Zones or Free Ports are established in SA.

SA uses the Harmonised System of Classification.

Samples are dutiable unless they are cut samples of cloth, leather, and wallpaper in book form and not for distribution as advertising matter.

The South African Government has viewed counter trade as a second-best alternative to be engaged in only when normal trade cannot be conducted.

Bonded warehouses are available at various points of entry.

The South African banks can accommodate all international transactions and are situated throughout the country.

General rebates of duty are available for specific situations, and duties may be rebated on goods on re-export.

The Reserve Bank plays a pivotal role in the economic and financial sectors.

Some imports may require permission from the Department of Agriculture, Health or Environment Affairs.

For exporters, there are also some incentives such as export marketing assistance, zero rating for value added tax (VAT) on exports of goods, services and reliefs from various customs and excise duties (Safrica, 2006f).

3.6 CONCERNS OF DOING BUSINESS IN SOUTH AFRICA

An investigation has been done by the investment climate assessment. It has investigated 800 firms in South Africa about the obstacle of the investment climate to their enterprise’s operations and growth (see figure 3.3) (Clarke et al, 2003: 9).
As the figure shows, about 35 percent of firms thought that the biggest constraint is worker skills. Macro-economic instability was regarded as the second most obstacles followed by labour regulations and crime. As can be seen, these four fields are the main worries of the South African firms.

3.7 SUMMARY

The aim of this chapter was to search for the advantages and disadvantages for a foreign investor to invest in the South African sports-shoe market from the fields of incentives for foreign investment, political environment, social culture and also the South African labour environment. The South African government does provide many incentives for local and foreign investment. According to the 2006 Grant Thornton International Business Owners Survey (see table 3.2), the future of the South African economy is bright. The local entrepreneurs are confident with their future business in SA.
From the studies, it can be seen that the South African market, however, still has some concerns. For a foreign company, it is important to choose a suitable entry strategy to make use of the incentives of the South African government and the environment advantages (such as advanced transport network, legal environments, stable political environment, hosting 2010 Soccer World Cup) and avoid the disadvantages like level of worker’s skills, macro-economic instability, labour regulations, instable South African rand and crime.
CHAPTER 4 THE CHINESE SPORTS-SHOE INDUSTRY

4.1 CHINESE ECONOMY BACKGROUND

The People's Republic of China (PRC) was founded in Beijing on October 1, 1949. By this time the people and the economy of China were exhausted by two generations of war and social conflict. A new political and economic order modelled on the Soviet example was adopted by the new government. By the end of 1950s, the PRC had curbed inflation to a certain extent, restored the economy, and rebuilt many war-damaged industrial plants (U.S. Department of State, 2005).

Since 1978 in order to increase industrial productivity, people's living standards, and technological quality, the PRC government has been reforming its economy from a Soviet-style centrally-planned economy to a more market-oriented economy but still within the political framework, under the control of the Communist Party of China. This has been called Socialism with Chinese characteristics, a mixed economy. The government encouraged village enterprises in rural areas, and promoted more self-management for state-owned enterprises, which increased competition in the marketplace. Some facilitative direct contacts between mainland Chinese and foreign trading enterprises were promoted by the Chinese government (Wikipedia, 2006).

During the 1980s, these reforms led to average annual rates of growth of ten percent in agricultural and industrial output. Industry obtained major gains especially in coastal areas near Hong Kong and across the strait from Taiwan. By the year 2005 the economy of the PRC was the second largest in the world,
measured by Purchasing Power Parity with a GDP of US $8.158 trillion and was the fourth largest economy in 2005 measured in USD-exchange rate terms (rising from sixth place in 2004). THE PRC is the world's largest developing economy, and its per capita GDP in 2005 was approximately US$1,703, which belongs to developing country level (World Bank, 2006).

In 2004, Chinese imports and exports grew to a total of USD 1,154.7 billion, an increase of 35.7 percent over 2003, placing the country 3rd in the leading trading countries behind the United States and Germany. In 2005, Chinese exports grew by 35.4 percent to USD 593.37 billion, meanwhile, imports increased 36 percent to USD 561.42 billion. This lustrous result matches an increase of 25.1 percent over the previous year and has surpassed the expectations of many experts (Economic and Commercial Section of the Embassy of Switzerland Beijing, 2005).

On the darker side, bureaucracy, political corruption, disrespect of personal property, a huge and widening gap between rich and poor, and increased inflation are the PRC’s current social problems (U.S. Department of State, 2005).

4.2 CHINESE LABOUR MARKET

By November 1, 2005, the Chinese population had risen to 1.306 billion, which is nearly one fifth of the world’s population (the National Bureau of Statistics of China, 2006). At present 60 percent of the Chinese population still lives in the countryside (Malik, 2004). Employment in agriculture is stagnant, and China has as many as 150 million surplus farm workers. As the impact of the WTO on Chinese agriculture increases, pressures on rural employment will increase. The
level of rural underemployment will continue to rise in the early years of the 21st century (Nolan, 2003).

At present, China has huge numbers of people who are poor in terms of international poverty lines. The average per capita income of Chinese 800 million rural residents is just US$290 per year (State Statistical Bureau, 2002: 343). By 2002, there were around 150 million rural residents who worked in the urban areas without permanent urban residence qualifications. These labourers have limited skills. The labour cost is between one and two US$ per day (Nolan, 2003), which explains Chinese low cost labour.

4.3 WORLD SPORTS-SHOE MARKET

The production of sports-shoes has seen substantial change in the world during the past 40 years. Because of the rising costs of production in the United States (US), Europe, Japan, Korea, and Taiwan and also because of an increase of organised workers who exercised more collective bargaining power, most of the world sports-shoe companies relocated their factories or sought subcontractors in south-eastern Asia. These countries have the advantage of low wages and a docile workforce. Companies like Nike, Reebok, New Balance, Oakley, Adidas, and Puma have subcontracts with many medium and small-scale companies in south-eastern Asia, particularly Thailand, Indonesia, Vietnam and China (CorpWatch, 2002).

According to Nolan (2003), by the 21st century, the world leading enterprises had become globally competitive giant corporations, with a global market, global brands, and a global procurement system. For example, in the sports-shoe field,
most of the international companies produce the products in south-eastern Asia with low cost and sell them globally at a high profit.

4.4 THE STRENGTH AND WEAKNESS OF THE CHINESE SPORTS-SHOE INDUSTRY

Most of the Chinese economy is composed of state-owned factories. However, according to Chong Quan, a Chinese Commerce Ministry spokesman, the Chinese shoe industry is one of the country's most market-orientated economies, with 98 percent of the sectors owned by private firms. Shoe-making is a labour-intensive industry, and China, with its low labour costs, has a comparative advantage in this industry (China anger over EU shoe ruling, 2006).

Before 1984, the shoe industry was based on state-owned enterprises producing for the domestic market before 1984. However, since the opening up of the economy, there has been an influx of capital into China from Hong Kong, Taiwan, the US and the EU into labour-intensive industries such as sports-shoes in China. Some of these new investors in China formed joint ventures with state-owned enterprises or local governments, while others set up 100 percent foreign-owned factories (CorpWatch, 2002).

According to the Chinese custom (see Table 4.1), the US is the biggest shoe importer. In the year of 2005, the US had imported 1.3 billion pair of shoes worth 4.3 billion US dollars and which was 50.23 percent of the total value export of Chinese shoes. The EU is the second biggest importer, with 11.14 percent of total shoes export of China.
Table 4.1 Chinese Shoe Exporting

<table>
<thead>
<tr>
<th>County</th>
<th>The US</th>
<th>The EU</th>
<th>Japan</th>
<th>Hong Kong (China)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of total</td>
<td>38.72%</td>
<td>11.14%</td>
<td>9.58%</td>
<td>8.53%</td>
</tr>
</tbody>
</table>

Sources: Adapted from Chinese Custom, 2005

Judging by the quality of the sports shoe, China has become the biggest shoe-producing country in the world, with seven billion pairs of shoes produced in the year of 2005, over half of the world shoe production. China has five billion pairs of shoes exported to 194 counties, nearly 60 percent of the global shoe trading volume. In addition, China produces more than 80 percent of the world's sports-shoes and supplies them to more than 100 countries. The major advantage of the Chinese sports shoe is its good price (Chinese Economy Weekly, 2006).

In many ways China is an ideal setting for the sports-shoe multinationals and their subcontractors. Massive unemployment, low wages, the lack of enforcement of labour laws and standards, repression of independent union organising, and the role of the state, are combined with local governments’ policies and interests in attracting foreign capital and ensuring the best conditions for the accumulation of profit.

Most Chinese sports-shoe suppliers conduct Original equipment manufacturer (OEM) for well-known companies such as Nike, New Balance, Reebok and Oakley. However, more and more Chinese sports-shoe suppliers are investing in Research and Development (R&D) and design technology in order to launch and develop their own brands (Chinese Economy Weekly, 2006).
Companies are also expanding their capacity, with many constructing additional factories to meet demand. While there are many newcomers to the market, most sports-shoe makers in China have ten years of experience, and some have 20 years (Chinese Economy Weekly, 2006).

At present Guang Dong province, near Hong Kong, is the biggest shoe manufactory base in China. It grew up from around 200 shoe manufacturers at the beginning of 1990s with the productivity of 0.2 billion pairs of shoes to over 5 000 shoe manufacturers with 3.5 billion pair of shoes produced, half of the Chinese total shoes produced in the year of 2005. However, there is only one national shoe brand and near 20 provincial brand shoes in Guang Dong province. Most of the shoes are produced by OEMs. The quality and standard of the Chinese sports shoe is a problem (Guangdong Economy and Trade, 2005).

At the end of 2005, China had approximately 20 thousand shoe manufacturers with 220, 000 employees and a production of over 10 billion pairs of shoes. The intensification of the competition in the Chinese shoe-making industry is high with innumerable shoe brands but few upscale brands (EU Business, 2006).

In the following section, the Li-Ning Sports Goods Limited will be studied as an example of the Chinese sports-shoe company by means of a SWOT analysis.

4.5 SWOT ANALYSIS OF LI-NING SPORTS GOODS LIMITED

A SWOT analysis is a good tool for auditing an organisation and its environment. It is the first stage of planning and also one of the important parts of the planning process (Hill, 2003: 188).
4.5.1 Introduction of Li-Ning Sports Goods Limited

Li Ning started his Li-Ning Sports Goods Limited in 1990 and now has been recognized as one of Chinese most successful businessmen. “Anything is possible” is the slogan of the company (China Net, 2003). The company has developed its own product and market under this slogan. Now, the company has manufactured some strong and stable product lines including Professional Competition Sports Apparel and Footwear, Sports Fashion Apparel and Footwear, Sports Accessories, and Golf Collections (56NET, 2005).

The company is one of the successful local sports goods enterprises in China with around 800 specialty stores and over 2,000 sales outlets covering 90 percent of the cities of China (Li Ning, 2004).

Li-Ning, a famous Chinese gymnast who won 106 gold medals in his gymnastic career, is known as the Prince of Gymnastics and is one of Chinese most famous sporting heroes. His achievements and contributions to sports have generated worldwide recognition. In 1999, the World Sports Correspondent Association elected Li Ning as one of the "World's Most Excellent Athletes of the 20th Century" (56NET, 2005).

In order to enter the global market, the company has been an official Sponsor of French National Gymnastic Team, Spanish National Gymnastic Team, the Official Sponsor of 2001 Universiade Chinese and Russian Delegations, the Official Partner of the China Olympic Committee, the Official Sponsor of Chinese Delegations at the 1992 and 2000 Olympic Games, the Official Sponsor of the China National Table Tennis Team, China National Diving Team, and the China National Gymnastic Team (Li Ning, 2004).
The SWOT analysis of Li-Ning sports Goods Limited has been summarized in the Figure 4.1. The details will be studied in the following section.

Figure 4.1 SWOT analysis of Li-Ning Sports Goods Limited

<table>
<thead>
<tr>
<th>Strength</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Competitive global product price</td>
<td>● Long product updating cycle</td>
</tr>
<tr>
<td>● High technology</td>
<td>● Quality control</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Opportunity</td>
<td>Threats</td>
</tr>
<tr>
<td>● Market growth</td>
<td>● Reputation</td>
</tr>
<tr>
<td>● Niche market</td>
<td>● Competitive market</td>
</tr>
</tbody>
</table>

4.5.2 Strength

The name Li-Ning is well known in China and his fame is an attraction to most people of the world. With good price and quality, the company has developed a well-known brand and good credit standing during its 15 years in the Chinese market (China Net, 2003).

4.5.2.1 Competitive global product price

Because of the low labour cost and land properties in China, Li-Ning has major advantages on its explicit and implicit cost. The materials of the shoes also cost less than in other parts of the world. The most expensive shoes of Li-Ning cost approximately thirty dollars, which is only one third of the normal price of the Nike shoes in China (China Net, 2003).
4.5.2.2 High technology
Li-Ning develops its specific materials and unique technology for its sports shoe, which is lighter than normal sports shoes. The company has also invested 1.3 million US dollars in building a first-class product research and design institute in China in the year of 2004, and employed world-ranking sports-shoe designers from Italy and France to strengthen its sports-shoe design and development. This investment improved its competitive power as regards quality guarantee (Century Economic, 2004).

4.5.3 Weakness
Comparing with the world famous sports-shoe brands, the main weakness of Li-Ning is the length of its product-updating cycle. Compared with Adidas and Nike, Li-Ning’s products update quite slowly. According to the research by Gallup Organisation, fifty-five percent of the total investigated customers felt that Li-Ning products needs innovation (Gallup organization, 2001).

To address this problem, the new design and R&D centre, Li Ning Sports Technology Development (HK) Company, was established in November 2004. It is located in Tins Enterprises Centre, Cheung Sha Wan, Hong Kong. The centre will be responsible for enhancing the company’s products and developing product designs. Meanwhile, the company plans to conduct R&D in collaboration with leading corporations and local universities. This collaboration would aim at offering innovative products to cater for the specific needs of various customers (Li Ning, 2005).
On the other hand, research shows that twenty four percent of the investigated customers say that the quality of Li-Ning sports shoe is not good enough (Gallup organization, 2001) compared with that of Nike and Adidas, but is much better than normal shoes.

4.5.4 Opportunity in the South African sports-shoe market

Nowadays, as their economic situation increases the people in developing countries pay more and more attention to their health. The sports markets in developing countries are growing sharply (Astakhova, 2003).

In the sports-shoe market of South Africa there are up-to-date and upmarket sports shoes, and also low-end shoes, but not many sports shoes are selling in between. As the South African economy increases, the large population of low-income people will become major consumers (US Commercial Service, 2005).

An opportunity for the athletic footwear market would be to consider developing a brand in the middle to low price segment of the market. In South Africa there are few branded shoes operating the middle to low end of the market. Typically, shoes in this price range are unbranded and can be bought from street vendors and discount retailers. The opportunity exists to develop a trusted and known brand in this segment of the market (Safrica, 2006b). This approach would be a niche market that could be dominated because of the lack of competitors. This would mean that consumers in the body beautiful market segment, which often buy on credit, could afford to by a branded shoe without extending their finances. To the poorer segment of the South African consumer market, the Li-Ning
discount brand represents the possibility of purchasing a brand with status at a reduced cost.

Another good opportunity is the 2010 Soccer World Cup hosted by South Africa, which will increase the sports-shoe demand.

4.5.5 Threats in the South African sports-shoe market

There are two threats for Li-Ning Limited.

- From a South African perspective Chinese apparel is viewed with distrust due to the reputation of cheap imitations emanating from that country. This means that Li-Ning will have to convince consumers of the quality of its product, which its competitors do not have to take into consideration.

- The market for sports shoes is competitive. The model developed by Phil Knight (high value branded product manufactured at a low cost) is now widely used and to an extent there is no longer a basis for a sustainable competitive advantage (Terpstra, & Sarathy, 2000: 335).

4.6 SUMMARY

The SWOT analysis is important for a company, who wants to enter a new market. It helps the company leverage its strengths, overcome its weaknesses, capitalize on the opportunities, and defend against threats (Hill, 2003: 188).

From the study on the Chinese economy, the strengths of the Chinese sports-shoe industry are its low labour cost, the lack of enforcement of labour laws and standards, and good policies and interests, which aim to attract foreign capital and ensure the best conditions for the accumulation of profit. A weakness
of the Chinese sports-shoe industry is the intensification of the competition with innumerable shoe brands but few international brands. The reputation of Chinese made products is not good, even though most of the world branded products are produced in China.

Li-Ning Sports Goods Limited has been studied as an example of Chinese sports-shoe companies through a SWOT analysis, since the company is similar to the many other Chinese sports-shoe companies. The SWOT analysis shows the strength of Li-Ning Limited as its competitive global product price and high technology, which are the important factors in world trade. Li-Ning’s weakness is excessively long product updating cycle and lack of quality control.

The external threats of Li-Ning Limited are the reputation of Chinese products and the competitive global market. In addition, there is an external opportunity in the South African sports-shoe market because of the growth in demand of the middle income sports-shoe market.
CHAPTER 5 THE EMPIRICAL STUDY AND METHODS USED

5.1 INTRODUCTION

In Chapter 2 the first sub-problem, ‘What are the popular entry strategies used in the South African and also global market?’ has been addressed in the literature study. Jeannet and Hennessey (2004: 509) pointed out that the identification of an appropriate overseas market and a suitable entry strategy needs investigation and analysis with regard to the following considerations:

- Socioeconomic characteristics (demographic, economic, geographic, and climatic characteristics);
- Political and legal characteristics;
- Financial conditions;
- Consumer variables (lifestyle, preferences, culture, taste, purchase behaviour, and purchase frequency).

Chapters 3 and 4 studied the external decision criteria for the mode of entry strategy, covering socioeconomic characteristics, political and legal characteristics and financial conditions in the South African and Chinese sports-shoe market. Consumer variables (internal decision criteria) will be examined in the empirical study.

In this chapter, an outline of the empirical approach adopted in this study will be explained, including the data collection method used, the techniques applied in the sampling method, and the questionnaire design.
5.2 RESEARCH DESIGN

According to Finn, et al (2000), research is about enquiry, discovery, and revealing something, which was previously unknown, uncertain or needed in testing the validity of existing knowledge. Research is a creative process, and requires the use of suitable methods of data collection and analysis.

A research design is the structure designed to answer the research question. According to Allison et al (2000: 4) a research design includes the planning of the research procedure as well as the procedure for data collection and analysis. Sekaran (1992: 92) highlights six elements of research design:

- Type of investigation: Causal versus non-causal;
- Purpose of the study: exploratory, descriptive, hypothesis testing;
- Extent of researcher interference with the study;
- Study setting: contrived versus non-contrived;
- Unit of analysis: Individual, dyads, groups, organisations, cultures;
- Time horizon of study: cross-sectional versus longitudinal.

In the following sections, the details of this research design, including the data collection method, the questionnaire design, the target population and the sample sizes will be explained.

5.3 THE PLANNING OF THE EMPIRICAL STUDY

The planning of the empirical study includes the questionnaire, data collection method, the pilot study and the sample, as explained in the following section.
5.3.1 The questionnaire

The questionnaire is used to record data in all survey-based studies and is one of the most widely used survey data collection techniques. Questionnaires are used to gather primary data on a number of samples and can include (Wegner, 2000:90):

- Demographics such as age, income, occupation, residential location, race, which are useful to classify samples;
- Past, present or future buying behaviours;
- Brand awareness levels of product knowledge;
- Usage levels; and
- Consumer’s attitudes and opinions.

5.3.2 Questionnaire design

According to Wegner (2000:94), an ideal questionnaire is clear, unambiguous and uniformly workable and generally consists of three sections:

- The administration section which identifies the interviewer, respondent, data, time and address where the interview was conducted. This is necessary for validation purposes through check-backs.
- The demographic section which describes the profile of the respondent such as age, gender, marital status, occupation, residential location, income, family size, language, qualifications (where the sampling units are individual consumers); or company size, turnover, economic sector, functional area, management level (where the sampling units are companies). The selection of demographic and socioeconomic attributes should be dictated by the nature and purpose of the research. These responses are used to produce a profile of the samples.
The information section, which is the substance of a questionnaire, contains all the questions which extract data from respondents to address the marketing study’s objectives. This section is generally divided into various categories of questions, each of which point to a different aspect of the study.

Besides, Wegner (2000:96) pointed out a number of useful considerations for designing a proper questionnaire to ensure valid and reliable data see below:

- A question must be included only if it contributes to the research objectives. Redundant questions must be avoided.
- Ambiguous questions must be avoided.
- Leading questions which generate biased responses should be avoided.
- Wherever possible, fixed-alternative response questions are recommended. Open-ended questions are difficult to analyse statistically.
- Questions should be arranged in a logical sequence.
- The questions should be kept as short and as simple as possible.
- Technical jargon should be avoided.
- Questions should not require calculations by the respondents.
- Instructions must be clear and explicit.
- Each question must address no more than one issue.
- Emotive language should be avoided.
- Filter questions should be used to guide the respondent logically through the various sections of the questionnaire to avoid inconsistent data being recorded.

Generally, a questionnaire has a covering letter (see Annexure A), outlining the purpose of the questionnaire and also requesting cooperation and completion of the questionnaire. See Annexure B for the questionnaire.
5.3.3 Data collection method

The choice of a primary data collection method influences the quality, quantity and type of data that can be gathered, and also the selection of statistical analyses. In this research, a quantitative study is adopted. There are three approaches to gathering external primary marketing data: observation methods, interview (survey) methods, and experimentation (Wegner, 2000:70). For the purpose of this study, a face-to-face interview was selected as the survey data collection technique.

The interview is a common form of data collection in marketing research studies, and is conducted using one of four approaches namely, personal interviews, postal (or mailed) surveys, telephone interviews and surveys on the internet (Wegner, 2000:73). In this study, the personal interview method was selected.

During the personal interview, the relative data is recorded onto a questionnaire through direct questioning of the consumers. According to Wegner (2000:74) the advantages of personal interviews are listed below:

- The data is immediately available;
- The data is generally more accurate as a result of better control over both the selection of sampling units and the interview;
- Greater quantities of data can be gathered since more questions can generally be asked;
- Responses are spontaneous, thus improving data validity;
- The response rate is generally high (about 80%);
- The opportunity to clarify questions and probe for reasons of preferences, perceptions or behaviours is easier and enhances the richness and quality of the gathered data;
- Non-verbal response (body language) data can be observed and recorded;
- More complex issues of a technical or motivational nature can be researched;
- Personal interviews are more versatile as it allows for product demonstration, showing of packaging and photographs, and
- The use of aided-recall techniques is possible.

On the other hand, personal interview also has certain disadvantages (Wegner, 2000:74):
- The fact that personal interviews are relatively expensive;
- Time-consuming to conduct;
- Limits the number of interviews, hence the size of the data set available for analysis;
- Interviewer bias may be introduced into responses, affecting data validity;
- Lengthy interviews may cause consumer response to be rushed or ill-considered.
- The loss of respondent anonymity may result in biased responses.

5.3.4 The pilot study

Before starting the survey, a pilot study is necessary, which can test the draft questionnaire and revise it if necessary (Wegner, 2000:95).

Hague (1994: 95) points out that the pilot study identifies the following aspects of the questionnaire:
- Is the wording of questions correct and not ambiguous or vague?
- Is the layout of the questionnaire user-friendly?
- Are the results of the survey correct for the data analysis or relevant to the research topic?
The pilot study to test the questionnaire for this research involves giving the questionnaire to a small group of people in order to test the questions and the results. This group of people needs to be similar to the target population (Jackson, 1995: 383).

5.3.5 The sample

Welman and Kruger (2001: 46) define the population as the study object, which may be individuals, groups or organisations. For the purpose of this study, the target population will be sports-shoe consumers in South Africa, who are between 13 and 65 years old. Due to the cost and time limitations of the research, the investigation will be limited to the sports-shoe consumers in the Port Elizabeth area. There are many sports-shoe shops in the Port Elizabeth area. The 150 randomly chosen customers, shopping at the five biggest sports-shoe shops and also the owners of these five sports-shoe shops in Port Elizabeth will constitute the samples.

5.5 SUMMARY

The objective of this chapter was to outline the planning details, as well as the research method and design employed. The planning of the empirical research, pilot study, designing and administering of the questionnaire, population and sampling were all presented and discussed.

The following chapter will present, analyse and interpret the findings of the empirical study received through the questionnaire method.
CHAPTER 6 RESULTS AND ANALYSIS OF THE EMPIRICAL STUDY

6.1 INTRODUCTION

This chapter will resolve the sub-problem: “What is the advisable entry strategy for Chinese sports-shoe companies to enter the sports-shoe market of Port Elizabeth”.

This question will be answered by analysing and interpreting the results of the empirical survey of customer and owner perceptions of the value of sports shoes in Port Elizabeth.

6.2 ANALYSIS ON CUSTOMER VALUE

This section analyzed the results of sections A and B from the questionnaire. The investigated population of sections A and B were the sports-shoe customers.

6.2.1 The research response

Personal interviews have been used for this survey. Two interviewers were employed. Of the 150 completed questionnaires, 138 responses were valid.

In addition, the owners of five local big sports-shoe shops were interviewed personally. Unfortunately, one owner refused to provide any information for this research. Another owner protected his information for question one: “Which brands are the best selling sports shoes in your shop? Could you please give the reasons?” The same owner did not answer question two: “What is the most
popular price of the sports shoe you sell?" Fortunately, the other three owners provided all the details that the research needed.

6.2.2 Biographical data

Section A of the questionnaire was the biographical data of the customers’ gender, age, average monthly income, and monthly sporting activities. The results of section A of the questionnaire are provided in Tables 6.1 to 6.6.

The data of the gender of the respondents are listed Table 6.1. As the table shows, the sample comprised 86 males (62.3 percent), and 52 females, (37.7 percent).

<table>
<thead>
<tr>
<th>Gender</th>
<th>Number (n)</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>86</td>
<td>62.3%</td>
</tr>
<tr>
<td>Female</td>
<td>52</td>
<td>37.7%</td>
</tr>
<tr>
<td>Total</td>
<td>138</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Question 2 in Section A gives the age group of the respondents. Of the total sample, the biggest group was the age 36 to 55 year old group (40.6 percent). The second biggest group was the 13 to 25 year old category. The other customer groups were 26 to 35 year old and 56 to 65 year old, which comprised 23.2 and 8.1 percent of the total sample, respectively.
Table 6.2 Age groups of the respondents

<table>
<thead>
<tr>
<th>Age group</th>
<th>Number (n)</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>13 to 25</td>
<td>39</td>
<td>28.3%</td>
</tr>
<tr>
<td>26 to 35</td>
<td>32</td>
<td>23.2%</td>
</tr>
<tr>
<td>36 to 55</td>
<td>56</td>
<td>40.6%</td>
</tr>
<tr>
<td>56 to 65</td>
<td>11</td>
<td>8.1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>138</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Question 3 investigates the average monthly income of consumers in rand. The majority of respondents’ (43) monthly income was in the category R1 to R5 000, which included students and low income customers. The second biggest group was in the category R8 001 to R15 000, which accounted for 36 respondents (21.3 percent of the total). The other two categories of R5 001 to R8 000 and over R15 001 per month accounted for 21.3 percent and 17.3 percent of the total, respectively. In addition, seven respondents (5.1 percent of the total sample) did not provide salary details for personal reasons.

Table 6.3 Average monthly income of respondents

<table>
<thead>
<tr>
<th>Average monthly income</th>
<th>Number (n)</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>R 1 to R5000</td>
<td>43</td>
<td>31.2%</td>
</tr>
<tr>
<td>R 5,001 to R 8,000</td>
<td>28</td>
<td>21.3%</td>
</tr>
<tr>
<td>R 8,001 to R 15,000</td>
<td>36</td>
<td>26.1%</td>
</tr>
<tr>
<td>over R 15,001 Rand</td>
<td>24</td>
<td>17.3%</td>
</tr>
<tr>
<td>Not available</td>
<td>7</td>
<td>5.1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>138</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>
Question 4, as analysed in Table 6.4 and Figure 6.1 shows that running was the most popular sporting activity in Port Elizabeth (46.4 percent of the total sample run each month). The second most popular sporting activity was gym (39.9 percent of the total). Other popular sports listed were in order of popularity: squash, golf, tennis, rugby, cricket, cycling, bowling, soccer, hiking, fishing, hockey, and badminton.

Figure 6.1 Popular sports in Port Elizabeth

By cross tabulating question 3 and 4, the average number of sporting activities by average monthly income was calculated (see Table 6.4). From this it can be seen that consumers in the income category R15 001 over participate in activities on an average of 16.9 times per month (highest frequency of sporting). This group is followed by the groups in the income categories R1 to R5 000, R8 001 to R15 000 and R5 001 to R8 000 income, which participated in sporting activities on an average of 13.4, 11.7 and 7.2 times per month, respectively.
Table 6.4 Sports activities by different income groups

<table>
<thead>
<tr>
<th>Average monthly income</th>
<th>Sports activities per person per month</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5 000Rand</td>
<td>13.4</td>
</tr>
<tr>
<td>5 001-8 000 Rand</td>
<td>7.2</td>
</tr>
<tr>
<td>8 001-15 000 Rand</td>
<td>11.7</td>
</tr>
<tr>
<td>over 15 001 Rand</td>
<td>16.9</td>
</tr>
</tbody>
</table>

With cross tabulating questions 2 and 4 the average number of sports activities per person per month by age group was calculated (see Table 6.5). Consumers between 13 to 25 years of age had the highest frequency of sporting activities (on an average of 25.1 times per month). The second group was in the category 56 to 65 years old and they participated in sport 15.6 times per month. The other two groups (26 to 35 years and 36 to 55 years) did sports 11.3 and 11.9 times per month respectively.

Table 6.5 Average number of sporting activities per person per month

<table>
<thead>
<tr>
<th>Age group</th>
<th>Average number of sporting activities per person per month</th>
</tr>
</thead>
<tbody>
<tr>
<td>13 to 25</td>
<td>25.1</td>
</tr>
<tr>
<td>26 to 35</td>
<td>11.3</td>
</tr>
<tr>
<td>36 to 55</td>
<td>11.9</td>
</tr>
<tr>
<td>56 to 65</td>
<td>15.6</td>
</tr>
</tbody>
</table>

6.2.3 Customer perception of the value of the sports shoe

In section B of the questionnaires, the customer perception of the value of the sports shoe was investigated. Question one “how many of each brand have you
bought over the last year” was about brand investigation and the estimation of the size of the market. From the Table 6.6, it can be seen that Adidas was the most popular sports shoe in the Port Elizabeth sports-shoe market (see Figure 6.2). The second most popular brand was Hi-tech with 17.5 percent. The next four most popular brands are New Balance, Nike, Asics and Puma with 16.3 percent, 14.5 percent, 11.4 percent and 8.4 percent, respectively. The sum of Reebok, Oakley and others made up the remaining 11.7 percent of the total amount.

Table 6.6 Survey on sports shoes bought in the past year

<table>
<thead>
<tr>
<th>Brand</th>
<th>Pair of sports shoes</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adidas</td>
<td>67</td>
<td>20.00%</td>
</tr>
<tr>
<td>Hi-tech</td>
<td>58</td>
<td>17.50%</td>
</tr>
<tr>
<td>New Balance</td>
<td>54</td>
<td>16.30%</td>
</tr>
<tr>
<td>Nike</td>
<td>48</td>
<td>14.50%</td>
</tr>
<tr>
<td>Asics</td>
<td>38</td>
<td>11.40%</td>
</tr>
<tr>
<td>Puma</td>
<td>28</td>
<td>8.40%</td>
</tr>
<tr>
<td>Reebok</td>
<td>15</td>
<td>4.50%</td>
</tr>
<tr>
<td>Oakley</td>
<td>6</td>
<td>1.80%</td>
</tr>
<tr>
<td>Others</td>
<td>18</td>
<td>5.40%</td>
</tr>
<tr>
<td>Total samples: 138</td>
<td>Total:</td>
<td>332 Total: 100.00%</td>
</tr>
<tr>
<td>Pair shoes/person</td>
<td>332/138=2.4</td>
<td></td>
</tr>
</tbody>
</table>
According to the survey, the 138 respondents bought a total number of 332 pairs of sports shoes, which meant an average of 2.4 pair of sports shoes per person (see Table 6.6).

In section B, question 4 was “Please rate your shoes on a scale of 1 to 5 (where 1= bad, 2=poor, 3=not bad, 4=good, 5=perfect)”. The rating result of each brand was its average ratings, which was calculated by dividing the sum of the ratings of each brand by the number of each brand’s customers in this survey, respectively (see Figure 6.3). Hi-tech received the best rating of 4.85. The second best rating brand was Nike at 4.45. Then Puma rated 4.28. After this, the following are Asics at 4.13; New Balance at 4.06; Reebok at 3.9. The lowest rating was Oakley with rating 3.33.
In question 5, customers were asked to give their reasons for buying the brand. The popular brand they chose. The brand of Adidas had the attractions of brand name, comfort, durability, function, performance, fashion and good quality (see Table 6.8). The advantages of comfort, price and professional function was given to Hi-tech. New Balance, Asics and Nike had the attractions of professional functionality. From these results, brand, comfort, and performance were the three most important quality factors for all these popular sports shoes in the Port Elizabeth sports-shoe market. Durability, price and quality are the second most important factors for buying these products.
Table 6.7 Customers’ feedback on their sports shoes

<table>
<thead>
<tr>
<th>Brand/ Reason for buying</th>
<th>Brand</th>
<th>Comfort</th>
<th>Casual</th>
<th>Durability</th>
<th>Function</th>
<th>Fashion</th>
<th>Price</th>
<th>Quality</th>
<th>Performance</th>
<th>Profession</th>
<th>Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adidas</td>
<td>● ●</td>
<td>● ● ● ●</td>
<td>● ● ● ●</td>
<td></td>
<td>● ● ● ●</td>
<td>● ● ● ●</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hi-tech</td>
<td>●</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>●</td>
</tr>
<tr>
<td>New Balance</td>
<td></td>
<td>● ●</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nike</td>
<td></td>
<td></td>
<td>● ● ●</td>
<td></td>
<td>● ● ● ●</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asics</td>
<td></td>
<td>● ● ●</td>
<td>● ●</td>
<td></td>
<td>● ● ● ●</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Puma</td>
<td></td>
<td>● ● ●</td>
<td>● ● ●</td>
<td></td>
<td>● ● ● ●</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reebok</td>
<td></td>
<td>● ● ●</td>
<td></td>
<td></td>
<td>● ●</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oakley</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>●</td>
</tr>
<tr>
<td>Total</td>
<td>6</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

Question 6 asked for suggested improvements on the sports shoes. To summarize the results, the respondents expected better prices for Adidas, Hi-tech, New Balance, Nike, Asics, and Puma, and also expected Asics, Puma, Oakley and Reebok to improve their durability and quality. More professional functionality was expected from Oakley. New Balance and Asics appeared to lack of fashion appeal (see Table 6.8).

The conclusion from the answers of question 6 was that customers expected six of the eight most popular brands to sell for better prices. Three of the eight
brands needed to improve their fashion appeal.

Table 6.8 Customer expectations of sports shoe improvement

<table>
<thead>
<tr>
<th>Brand/ Expecting Improvement</th>
<th>Better Price</th>
<th>Durability</th>
<th>Fashion</th>
<th>materials</th>
<th>Quality</th>
<th>Performance</th>
<th>Profession</th>
<th>Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adidas</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Hi-tech</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>New Balance</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Nike</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Asics</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Puma</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Reebok</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Oakley</td>
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<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Total</td>
<td>6</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

6.2.4 Buying channels

Question 2 of section B asked customers where they bought their sports shoes. This question studied the buying channels of sports-shoe customers in Port Elizabeth. As the Table 6.9 shows, 90.3 percents of the sports shoes are bought in the speciality sports-shoe shops and only 9.7 percents of the sports shoes are bought in other places (such as Edgars, Game or from street vendors).
Table 6.9 Studies on the places that customers bought their sports shoes

<table>
<thead>
<tr>
<th>The place that you bought your sports shoes</th>
<th>Number (n)</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speciality sports-shoe shop</td>
<td>300</td>
<td>90.3</td>
</tr>
<tr>
<td>Others (such as Edgar, Game, or on the streets)</td>
<td>32</td>
<td>9.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>332</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

6.2.5 Price analysis of the sports shoe

Question 3 of section B was “what was the cost of your sports shoe bought in the past year”. The average cost of the sports shoe has been calculated according to the information provided by the respondent. The average price of Adidas sports shoe was R727. The other four most popular brands (Hi-tech, New Balance, Nike, and Asics) cost on average R656, R650, R768 and R857, respectively. The average cost of all the sports shoes was R695 (See Figure 6.4).

Figure 6.4 Average costs of different sports shoes
6.3 ANALYSIS OF DATA FROM OWNERS OF SPORTS-SHOE SHOPS

This survey thus far provided first hand information directly from customers, revealing what kind of sports shoe was more popular, which sports shoe they bought and why, as well as the expectations they have of their sports shoes. In addition, the survey has also investigated the sports-shoe market from the perspective of sports-shoe shops. Section C of the questionnaire, deals with this latter issue.

6.3.1 Purchasing method

The first question was “Where do you purchase your sports shoes from?” Four owners purchase their products from a South African agent. Only one owner buys his products from both a South African agent and an international agent (see Table 6.10).

<table>
<thead>
<tr>
<th>Method</th>
<th>Utilization rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South African Agent</td>
<td>75%</td>
</tr>
<tr>
<td>International Agent</td>
<td>25%</td>
</tr>
<tr>
<td>Whole seller</td>
<td>0</td>
</tr>
<tr>
<td>Manufacturer</td>
<td>0</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
</tr>
</tbody>
</table>

6.3.2 Business format of the sports-shoe shops

In answering the question, “Which business format details your business the best”, 75 percent of the sports-shoe shops were found to a company and 25 percent were sole proprietorship (see Table 6.11).
Table 6.11 Business format of sports-shoe shops

<table>
<thead>
<tr>
<th>Business format</th>
<th>Frequency (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company</td>
<td>75%</td>
</tr>
<tr>
<td>Sole proprietor</td>
<td>25%</td>
</tr>
<tr>
<td>Franchise</td>
<td>0</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
</tr>
</tbody>
</table>

6.3.3 Sports shoes analysis

“Which brands are the best selling sports shoes in your shop?” was question 3 in section C. According to the survey, the best selling brands are: Adidas, Asics, New Balance, Nike and Puma (see Table 6.12).

Table 6.12 Best selling brand of the sports shoes according to owners

<table>
<thead>
<tr>
<th>Owners/Brand</th>
<th>Adidas</th>
<th>New Balance</th>
<th>Nike</th>
<th>Asics</th>
<th>Puma</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>B</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>C</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
</tbody>
</table>

Question four was “What was the most popular price of the sports shoes you sell?”

The most popular price was a sensitive topic. In order to protect the owner of the sports-shoe shops, the details of the popular price cannot be listed in this thesis.
However, all these owners agree that the medium to high price strategy work the best.

6.3.4 Sports-shoe market environment

The last question of section C for the owners of sports-shoe shop was “What was your opinion regarding the sports-shoe market in South Africa?” From the survey, there were several opinions from these owners. One owner said that the sports-shoe market of Port Elizabeth is highly competitive. Many shops sell the similar sports shoes and these shops have a continual price war. Another owner felt that the sports-shoe price of South Africa was high compared with that of European countries, because many customers, who have bought sports-shoes abroad, complain of the high prices of the same sports shoes locally.

6.4 INTERPRETATION OF THE RESEARCH FINDINGS

The results of both the literature and empirical study have identified certain factors that need the attention of the sports-shoe company. The Chinese company, which wants to enter the South African sports-shoe market, needs to design the appropriately functional sports shoe for the South African market and not only export superfluous sports shoes to South African market. To build up a good brand sports shoe is important in South Africa. A new Chinese company needs to build up its brand when entering the market with a long term view and exposure.

The sports-shoe market in South Africa has its own sales channels, which differ from the established Chinese sales methods. Therefore an agent in each area will be a prerequisite for a successful South African market penetration.
From the study, the recommended entry strategy for a Chinese sports-shoe company would be a joint venture with a South African company. In addition, research and development alliances are also advisable. Further details on both these options will be presented in section 7.5 of Chapter 7.

6.5 SUMMARY

The aim of Chapter Six was to present, analyse, interpret and integrate the results of the empirical study into the literature research. Most of the results of the empirical study have been presented in the form of graphs, and contingency tables with actual data. Each question of the survey has been analysed. The results of the empirical study were analysed and interpreted to ascertain the extent to which the findings of the empirical study correlate with the literature study.

In the next chapter, a detailed presentation of the findings, conclusions and recommendations will be given.
CHAPTER 7 SUMMARY, CONCLUSION AND RECOMMENDATIONS

7.1 INTRODUCTION

The main objective of this study was to determine the most suitable entry strategy for Chinese sports-shoe companies to enter the middle to high class South African sports-shoe market. This chapter briefly discusses the main findings, problems and limitations associated with the research process. Finally, a brief recommendation for the application of the findings was presented.

7.2 SUMMARY

As stated in Chapter 1, the motivation of the study was to find the suitable entry strategy for Chinese sports-shoe companies to enter the middle to high class South African sports-shoe market. To resolve the main problem, the following three sub-problems were addressed.

7.2.1 Popular enter strategies and decision criteria to enter the South African sports-shoe market

In chapter 2, the popular entry strategies in the South African and global markets have been studied. These included: exporting, licensing, franchising, offshore production, as well as the ownership entry strategies: joint venture, merger and acquisition and strategic alliances.

Every firm has its strengths, and weaknesses and each market has its own opportunities and threats. Not all the entry strategies will be suitable for all
markets or even for one market for a certain period. According to the literature study, the adaptable strategy, along with the changing of a market environment, is the right strategy for any market.

7.2.2 South African and Chinese Market environment study

The South African and Chinese Market environment study was critical for the first sub-problem “What, according to the literature, are the popular entry strategies used in the South African and also global market and what are the decision criteria for entry strategies?” It was one of the most important elements in deciding whether to continue further research. Chapter 3 and chapter 4 addressed this issue.

Chapter 3 was the study of South African market environment. The aim of this study was to explore the advantages and disadvantages for a foreign investor in the South African sports-shoe market including: the fields of incentives for foreign investment, the political environment, the social culture and also the South African labour environment. From the study, it can be seen that the South African government provides many incentives to encourage local and foreign investment. According to the 2006 Grant Thornton International Business Owners Survey (see Table 3.2), the future of the South African economy was bright. Local entrepreneurs are confident of their future business in South Africa.

From the studies, it can be seen that the South African market, still raises some concerns. For a foreign company, it was important to choose a suitable entry strategy to make use of the incentives of the South African government and the environmental advantages (such as an advanced transport network, legal
environments, incentives for foreign investment, a stable political environment, and hosting the 2010 Soccer World Cup) and to avoid the disadvantages like the level of workers’ skills, macro-economic instability, labour regulations, the unstable South African rand and crime.

Chapter 4 was the study of the Chinese sports-shoe industry. This chapter studied the Chinese macro-economy and also analyzed the strength and weakness of Chinese sports-shoe industry. The study chose a famous Chinese sports-shoe company, Li Ning Limited., as an example.

The strengths of the Chinese sports-shoe industry are its low labour cost, the relaxed labour environment, and good policies and interests, which aim to attract foreign capital and ensure the best conditions for the accumulation of profit. The weakness of the Chinese sports-shoe industry was the intensification of the competition with innumerable shoe brands but few international brands. The reputation of Chinese made products was not good, even though most of the world famous branded products are produced in China.

Li-Ning Sports Goods Limited has been studied as an example of Chinese sports-shoe companies through a SWOT analysis, since the company is similar to many other Chinese sports-shoe companies. The strengths of Li-Ning Limited reside in its competitive global product price and high technology, which are important factors in world trade. Li-Ning's weakness was its excessive product updating cycle and its lack of quality control.

The external threats of Li-Ning Limited are the poor reputation of Chinese products and the competitive global market. In addition, there was an external
opportunity in the South African sports-shoe market because of the growth in demand in the medium sports-shoe market.

The SWOT analysis was important for a company, who wants to enter a new market. It helps the company leverage its strengths, overcome its weaknesses, capitalize on the opportunities, and defend against threats (Hill, 2003: 188).

7.2.3 The advisable entry strategies for Chinese sports-shoe companies into Port Elizabeth

Chapter 5 investigated the advisable entry strategy to enter the sports-shoe market of Port Elizabeth for the Chinese sports-shoe companies by means of an empirical study. The results of the empirical study were presented mainly in the form of tables and graphs in the Chapter 6. The empirical study provided first hand information on the study and the details of the information will be discussed in section 7.3.

7.3 CONCLUSIONS

In this section the conclusions of the findings of both the literature and empirical studies will be discussed.

7.3.1 Literature review on entry strategy

In South Africa, the following are the popular entry strategies: exporting, licensing, franchising, offshore production, and also the ownership entry strategies: joint venture, merger and acquisition and strategic alliances.
The decision criteria for each mode of entry include:

- Socioeconomic characteristics (demographic, economic, geographic, and climatic characteristics).
- Political and legal characteristics.
- Financial conditions.
- Consumer variables (lifestyle, preferences, culture, taste, purchase behaviour, and purchase frequency).

7.3.2 Literature review on the South African and Chinese economy

The advantages of South African market environment are:

- transport network,
- legal environments,
- incentives for foreign investment,
- stable political environment,
- hosting 2010 Soccer World Cup

The disadvantages of South African market environment are:

- Level of worker skills,
- Macro-economic instability,
- Labour regulations,
- Unstable South African rand and
- Crime

The advantages of Chinese sports-shoe industry are:

- Low labour cost,
- The lack of enforcement of labour laws, and
Good policies and interests, which aim to attract foreign capital and ensure the best conditions for the accumulation of profit.

The weaknesses of the Chinese sports-shoe industry are:

- Intensification of the competition with innumerable shoe brands but few international brands, and
- The reputation of Chinese made products is not good, even though most of the worlds branded products are produced in China.

7.3.3 Empirical study results

The empirical study found the following useful information:

- South Africa has many popular sports which are different from those in China. The same sports-shoe products selling in the Chinese market are not suitable for the South African market. The popular sports are: running, gym, squash, golf, tennis, rugby, cricket, cycling, soccer, and hiking.
- Customers with over R15 000 income per month have the highest frequency of sporting activities.
- South Africans have strong brand loyalty. All the popular, well-sold sports shoes are world-famous brands. A well-sold sports shoe needs to have quality, comfort and performance characteristics.
- South Africans expect a better price for good sports shoes. The fashion of a sports shoe was also important.
- The middle to high sports-shoe market was profitable.
- 90.3 percent of customers buy their sports shoes from speciality sports-shoe shops.
Most of the businessmen purchase their products from local agents, which is different from the practice in China.

7.4 RECOMMENDATIONS

The results of the study have identified certain factors that need attention of the company. A Chinese company wanting to enter the South African sports-shoe market, needs to design appropriate functional sports shoes for the South African market and not only export its superfluous sports shoes to South African market. To build up a good-brand sports shoe was important in South Africa. A Chinese company needs to build up its brand on entering the market for a long term consideration.

The sports-shoe market in South Africa has its own sales channels. An agent in each area was required. A Chinese company needs to fit into the South African market environment instead of creating its own method.

From the study, a joint venture is one of the recommended entry strategies. Making use of local companies' market experience is a good choice. There are many methods of using a joint venture; these include cooperation with a local agent, local sports-shoe shops, or franchising.

Another recommended entry strategy is research and development alliances. A Chinese company can cooperate with a South African company willing to design South African sports shoes and also cooperate with a company which can do the distribution. The Chinese sports-shoe company should focus on development of the cost, quality and materials of its products and improve its global competitiveness.
REFERENCE LIST


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Li Ning [Online], 2005 Available:


Makro [Online]. 2006. Available:


Sports Org, [Online], 2005 Available:  
(accessed: 20 Apr 2006).


The Gale Group. 2003. *Is the Chinese currency, the renminbi, dangerously undervalued anda threat to the global economy? Over thirty important experts offer their views; A Symposium Of Views*. Unpublished manuscript.


World Bank Group, [2005] Available:
March 2006

Dear Respondent:

This Survey is trying to establish the customer value of sports-shoe retailing in Port Elizabeth. Your assistance in completing the questionnaire would be greatly appreciated. It will take you no more than 10 minutes to complete. Thank you for your time and concern.

If you have an interest regarding the results, please leave your email on the questionnaire, and it will be forwarded to you at a later stage.

Your kind co-operation is appreciated.

Zhi Guo

Entrepreneurship Student
Annexure B Customer value questionnaire for sports-shoe market

**Section A**

**Biographical Information**

(Please, tick the appropriate block)

1. Please indicate your gender

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td></td>
</tr>
</tbody>
</table>

2. What is your age group?

<table>
<thead>
<tr>
<th>Age Group</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>13-25 year old</td>
<td></td>
</tr>
<tr>
<td>26-35 year old</td>
<td></td>
</tr>
<tr>
<td>36-55 year old</td>
<td></td>
</tr>
<tr>
<td>56-65 year old</td>
<td></td>
</tr>
</tbody>
</table>

3. What is your average monthly income (in Rand)?

<table>
<thead>
<tr>
<th>Income Range</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>R1-R5 000</td>
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<tr>
<td>R5 001-R8 000</td>
<td></td>
</tr>
<tr>
<td>R8 001-R15 000</td>
<td></td>
</tr>
<tr>
<td>over R15 001</td>
<td></td>
</tr>
</tbody>
</table>

4. How often do you do sport activities per month (frequency per month)?

<table>
<thead>
<tr>
<th>Activities</th>
<th>Frequency per month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bowling</td>
<td></td>
</tr>
<tr>
<td>Badminton</td>
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<tr>
<td>Cricket Rugby</td>
<td></td>
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<tr>
<td>Cycling</td>
<td></td>
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<tr>
<td>Frequency per month</td>
<td></td>
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<td>---------------------</td>
<td></td>
</tr>
<tr>
<td>Hiking</td>
<td></td>
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<tr>
<td>Golf</td>
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<tr>
<td>Gym</td>
<td></td>
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<tr>
<td>Running</td>
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<tr>
<td>Soccer</td>
<td></td>
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<tr>
<td>Squash</td>
<td></td>
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<tr>
<td>(others)</td>
<td></td>
</tr>
</tbody>
</table>

Section B

This section will establish the customer value study of sports-shoes.

Some of the questions need to be filled in. Please answer the following 3 questions in the matrix provided.

Brand investigation and the estimation of the size of the market:
1. How many of each brand have you bought over the last year?

Dealer analysis:
2. Where did you buy them?

Price strategy analysis:
3. How much did you pay for your sports shoes?
<table>
<thead>
<tr>
<th>Logo of sports shoes</th>
<th>1. Number of shoes in the past one year</th>
<th>2. Where did you buy them</th>
<th>3. Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="adidas logo" /></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><img src="image" alt="AND1 logo" /></td>
<td></td>
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<td><img src="image" alt="asics logo" /></td>
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<td><img src="image" alt="FILA logo" /></td>
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<td><img src="image" alt="PUMA logo" /></td>
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<td><img src="image" alt="Reebok logo" /></td>
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<tr>
<td><img src="image" alt="HI-TEC logo" /></td>
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<tr>
<td>Other Brand</td>
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<tr>
<td>Other Brand</td>
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</tr>
</tbody>
</table>
Please answer questions 4, 5 and 6 in the matrix provided.

**Customer Value analysis:**
4. Are you satisfied with your sports shoes?

Please rate them on a scale of 1 to 5 (where 1= bad, 2=poor, 3=not bad, 4=good, 5=perfect).

**Product orientation analysis:**
5. Reasons for buying the brand.

6. Need improvements on the sports shoes.

Some choices for questions 5 and 6

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Logo of sports shoes</td>
<td>4. Your rating of the sports shoe</td>
<td>5. Reasons for buying the brand</td>
<td>6. Need improvements</td>
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<td>![adidas logo]</td>
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<tr>
<td>Logo of sports shoes</td>
<td>4. Your rating of the sports shoe</td>
<td>5. Reasons for buying the brand</td>
<td>6. Suggestion</td>
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<td>[Nike logo]</td>
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<tr>
<td>Other Brand (Please leave the brand name)</td>
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**Section C**

This section will establish the customer value study of sports shoes from the sports-shoe salers’ opinion. The questions need to be filled in.

1. Where do you stock your sports shoes from? ______________________
   a. Whole saler.
   b. South Africa Agent.
   c. International Agent.
   d. From manufacturer directly.
   e. Others please clarify.
2. Which business format details your business the best?
   a. Franchise
   b. Sole proprietorship
   c. Company
   d. Others please clarify

3. Which brands are the best selling sports shoes in your shop? Could you please give the reasons?

4. What is the most popular price of the sports shoe you sell?

5. What is your opinion regarding the sports-shoe market in South Africa?