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**Solomon Osakwe 29/05/2023**

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# INTRODUCTION

K&H Annala Oy popularly known as Annala is a weavery and the only Finnish company that produces 100% Finnish fabrics for furniture. They have expertise to create woven fabrics for use in homes, public areas, and automobiles. With the use of contemporary technology, K&H Annala Oy provides fabrics with a variety of materials, including natural fabrics, antistatic materials, fireproof fabrics, cloaking fabrics, panel acoustic fabrics, and antiterror (cutproof) fabrics, for use in a variety of applications.

The company also produce bedspreads, pillowcases, and bed covers, for example, for hotels. They also make fabrics and goods for companies, and can assist in identifying the designer and establishing different method. Annala employ a designer in-house, and all of Annala productions are done in Lapua, Finland. In addition, they also manufacture special designs and project fabrics for interior constructors and brands.

Annala is a Finnish furniture fabric company and want to serve their customers for the next 60 years by producing high-quality fabrics responsibly according to information Annala official website. Annala work is based on the self-sufficiency of Finnish production and the preservation of the tradition of weaving and handicrafts in Finland but also want to replicate its quality and tradition internationally.

Presently, Annala raw materials come from Europe and in the production chain with strive for environmental friendliness and the preservation of nature's well-being.

The company turnover according to the company’s financial statement for 2021 is 560,000 euros and the same statement shows that the company made a percentage profit of 6.2% while the overall turnover saw an increase of 13.4%.

Trying to recover from the impact of the Covid-19 which affected many company including K&H Annala Oy, couple with the recent sanctions levelled on Russia due to its military action in Ukraine which also led to the loss of Russian market for K&H Annala, the company has decided to enter the South African market so as to get a replacement for their Russian market loss and to increase sales.

Recent report shows that there is high demand for eco-friendly textiles and clothing in Africa, which has given room for growth potential of the African market. However, due to the insufficient South Africa-specific market knowledge, the decision to expand into South Africa is difficult to realize. This project aims to assist K&H Annala Oy on the new market development and present critical findings and recommendations

This **diploma thesis** is a **consulting project**. The goal of the work is to develop strategical recommendations for K&H Annala Oy on the South African market entry.

Based on this goal, following objectives were defined:

* Description of K&H Annala Oy, its internal resources, capabilities and the company’s internationalization readiness
* Managerial statement and identifying the managerial tools needed for this project
* Analyzing the external factors of South Africa and how to strategically exploit the new market opportunities for K&H Annala Oy.
* Analyze acceptable entry modes and choice making strategy.
* Giving strategic recommendations based on the internal and external assessment.
* Analyzing risk and risk mitigation

To be more specific, the main topic of the thesis will be the strategy that the business might employ to successfully enter and establish itself in the South African market. The thesis will also look at the political, economic, and cultural variables that could affect how well the business does in Africa.

In order to compile information on the South African textile and apparel sector, including customer preferences, regional rivals, and governmental laws, the study will use both primary and secondary sources.

The object of the research in this diploma thesis is **K&H Annala Oy**, the subject of research is **South African market entry strategy**. In accordance with the goal, the following correlated tools and instruments are applied for the analysis and development of strategic recommendations

* **Internal assessment:**

1. Business model canvas
2. VRIO analysis
3. Primary SWOT analysis

* **External assessment:**

1. PESTEL analysis
2. Porter’s 5 Forces analysis
3. Strategic mapping

* **Strategy formulation:**

1. Entry mode/timing selection
2. Marketing mix
3. Risk and mitigation strategy
4. Financial planning

This diploma thesis includes **three chapters.**

Chapter 1 is devoted to internal analysis. The description of the company K&H Annala is also discussed in this chapter*.* To assess the company's current state, we should analyses the resources and capacity of the company. The organization's expertise of the company, the cost position, and the competitive viability of the company in the target marketplace will also be examined in order to establish the organization's readiness and potential for international business operations.

Chapter 2 will cover the examination and analyses of the external environment, the research of the South African market, the profitability of the market, the competitive environment, and the readiness against threats, and strategy to be able to take advantage of the new market for K&H Annala Oy.

Chapter 3 will cover the creation of the entrance strategy. This will also discusses how to select the best entry mechanism for K&H Annala Oy. There will also be recommendations on effective internationalization in this chapter that will be based on the unique characteristics of the firm, the market, and the industry. The effectiveness of this project, risks, and risk mitigation with current market valuation.

In the process of writing this work, there were various sources used. Information collection was premised on secondary sources (news publications, statistical data bases, market researches) and on primary data (unstructured interview with Annala’s Office Manager Hanna-Maria Kortesojaa and Kukkis the Sales-Marketing Personnel). Besides that, materials and articles on theory of expansion to international markets were used.

# CHAPTER 1. INTERNAL ANALYSIS AND ASSESSMENT OF

# INTERNATIONALIZATION POTENTIAL

The investigation of the internal environment of the firm, including its overview, brevity of its history, purpose, vision, and strategy, as well as its business model, is the focus of this chapter. As part of a strategic investigation of the organization's expertise, financial condition, and competitive viability in the target market, the resources and capacity are analyzed to ascertain the possibility of international preparedness.

## 1.1 Brief Company Overview

K&H Annala Oy is a Finnish company that specializes in the design, development, and production of high-quality fabrics products for a range of industries. The company was founded in 1991 by Kari Annala and Hannu Huusko, who brought their extensive experience in metalworking and product development to create a company that was focused on providing innovative solutions to its customers.

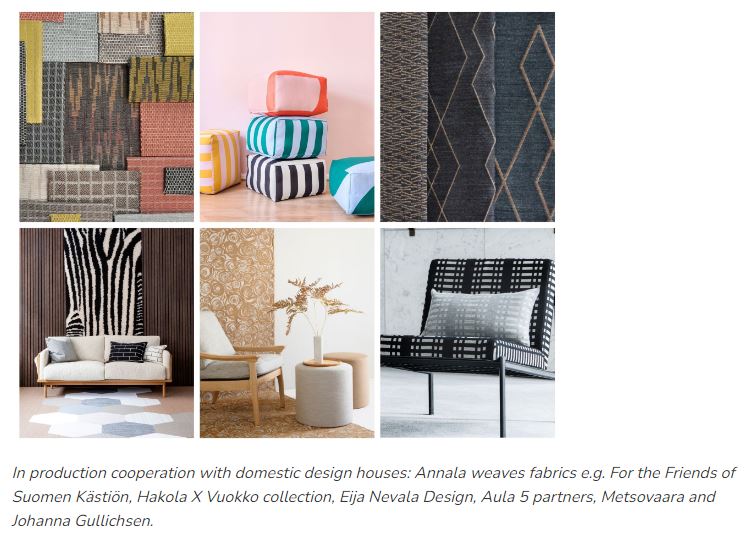


*Fig.1 shows Annala Showroom location in Helsinki*

Over the years, K&H Annala Oy has built a reputation for excellence in its field, thanks to its commitment to quality, innovation, and customer satisfaction. The company operates from its modern facilities in Jyväskylä, Finland, which are equipped with the latest technology and machinery to ensure that all products are manufactured to the highest standards.

One of the key strengths of K&H Annala Oy is its ability to provide customized solutions to its customers. The company works closely with its clients to understand their specific needs and requirements, and then develops tailored solutions that meet those needs perfectly. This approach has allowed the company to establish long-term relationships with a wide range of customers across different industries, including the automotive, marine, and construction sectors.

“Annala is the only remaining Finnish furniture fabric company and we want to serve our customers for the next 60 years by producing high-quality fabrics responsibly. Our work is based on the self-sufficiency of Finnish production and the preservation of the tradition of weaving and handicrafts in Finland. In production, we aim for a high domesticity rate. Our raw materials come from Europe and in the production chain we strive for environmental friendliness and the preservation of nature's well-being” (Annala, ei pvm)



*Fig.2 taken from company website shows some Annala indesign products*

At present, “Annala's textile mill is located in South Ostrobothnia, Lapua, on the shore of Lankilankoski. Annala's customer service is available from the factory on weekdays from 8 am to 4 pm. Annala Showroom in Helsinki Töölö serves consumer customers as well as designers and architects. Sample pieces from all the fabrics in Annala's collection are displayed in the space. Annala & AULA 5 Showroom is open Mon-Fri from 9 am to 5 pm (in July, Mon-Wed from 9 am to 5 pm)” (Annala, ei pvm).

## Mission, Vision & Strategy

“The mission of K&H Annala Oy according to the unstructured interview is to create high-quality, sustainable, and innovative fabric solutions that meet the diverse needs of our customers, while making a positive impact on the environment and contributing to the growth of the Finnish tradition and textile industry” (Annala, ei pvm).

“The vision of K&H Annala Oy is to become a leading Finnish fabric company, recognized globally for our commitment to sustainability, innovation, and excellence in design and manufacturing, while fostering strong relationships with our partners and customers to promote a better future for all” (Annala, ei pvm).

The company’s strategy according to the interview has always been in the area of design innovation, sustainability, partnership and operational excellence. K&H Annala Oy has heavily invested in continuously design research and development to be able to create cutting-edge fabric design and technologies that can cater to the evolving needs of our their customers on the local and foreign market.

The company has also prioritize eco-friendly materials, ethics, processes, and supply chain practices to reduce environmental degradation and promote responsible consumption and production of fabric product. The sustainability practice for healthy environment is paramount to the K&H Annala. According to the interview I had with the company’s representative, I was made to understand that the company is very conscious of the environment, thus guide they practices and operations. The company’s strategy is also understanding the unique requirements of their customers and provide tailored solutions, offering a wide range of high-quality fabric products and professional customer service. K&H Annala Oy has also formed diverse partnerships and collaborations in other to forge strategic alliances with many partners in the industry. Examples of these partners are fashion brands, interior designers, and furniture manufacturers. Also to expand their market reach and jointly create value-added products and services. Lastly, Annala was able to streamline their operations by adopting advanced manufacturing technologies, efficient production processes to boost productivity, reduce costs, boost speed and maintain strict quality control.

## Current Business Model

To create a strong entrance strategy for K&H Annala, analyzing the business model is crucial since it offers a broader grasp of how the business functions and it also shows how the organizational system of making money from its operations. A business model is a framework that describes how an organization generates and provides value to its clients while producing income and preserving profitability.

It is important to assess the business model for a company before developing an entry strategy. This is due to the fact that when a firm expands, the foreign environment may have an impact not only on marketing and operational operations but also on the business model itself. So, when a company expands internationally, it is crucial to mention prospective transformation zones.

An organization can determine its advantages, disadvantages, opportunities, and dangers by examining its business model. The company's aims and objectives can be aligned with the entrance strategy that is created using this information. Analyzing the business model can also assist the corporation in identifying possible risks and difficulties that might appear during the entry process.

Experts typically use a tool like the Business Model Canvas, developed by Alexander Osterwalder, to demonstrate how to examine a company's actual business model. Customer segments, value propositions, customer relationships, channels, key activities, key resources, key partners, cost structure, and revenue streams are the nine interrelated blocks that make up the business model canvas.

Lean Canvas, on the other hand, is a different idea designed to assist business owners in identifying their most pressing issues and potential solutions. In reality, Lean Canvas is a fresh take on the business model canvas that has been tailored to the characteristics of young technology businesses.

The Lean Canvas was selected in the end because it best captures the layout of K&H Annala business model. First of all, since it emphasizes on defining issues and potential fixes. Second, the section on unfair advantages emphasizes how the company differs from competitors, emphasizing its special value. Thirdly, the Lean Canvas structure is straightforward.

Below are the main results of systematizing the business model of K&H Annala, based on the framework of the Lean Canvas Business Model (see Table 1).

*Table 1 K&H Annala’s Business Model systematized based on Lean Canvas*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Key Partnership**   * Interior designers * Trade and fashion shows * Brands * SMEs * Suppliers * Logistic and shipping providers | **Key Activities**   * Weaving * Sewing * Partnership, * Fabric Design * Sampling | **Unique Value Proposition**   * High-Quality Fabrics * Innovative Designs * Sustainable Manufacturing * Customization * Flexibility * Reliable Partnerships | | **Unfair Advantage**  Exclusive certified and Eco friendly suppliers and 100% Finnish made | **Customer segments**   * Companies * Brands(VR) * Upholstery * SMEs * Interior designers * Furniture Companies * Hotel * Special homes   Location   * European Countries * Russia, |
| **Key metrics**   * Customer Acquisition Cost * Compound Annual Growth Rate * Net profit * Revenue * Customer loyalty and retention * Employee Happiness | **Channels**   * Fashion Fairs * Internet * B2B * WoM * Transport and posting system * Calls * Emails * Showrooms * Webnars |
| **Cost structure**   * Office and factory lease * Premises maintenance costs * Employees’ salaries * Marketing and promotion expenses * Taxes paid | | | **Revenue streams**   * Clients’ payments for fabrics | | |

*Compiled by: unstructured interview with Miss Kukka-Maaria Andersen the Sales-Marketing Personnel*

Key Partners

The company works with different partners across Finland, other European countries and Russia. Annala benefit from partnering with a variety of organizations and businesses to expand its market reach, improve supply chain efficiency, and foster innovation. K&H Annala works with some key partners like interior designers and fashion brands. This helps the company to develop relationships with Finnish and international designers, fashion brands, and clothing manufacturers which in return helps to promote the use of their Annala fabrics in their products. They also work with trade shows and event industries. This helps the company to participate in different trade shows and design events like Heimtextil, Première Vision, and Techtextil, where they showcase products, network with potential partners, and stay informed about industry trends. Annala also works with a lot of Small and Medium scale Enterprise. They offer many small quantity customized solutions to these small businesses and also offer those tailored services and products to these SMEs. This helps the SMEs in addressing their specific needs and preferences. This partnership with these SMEs also leads to customer loyalty. From my interview with Kukkis, SMEs partnerships helps the company in training and skill development by organizing workshops, seminars, or training sessions to share industry knowledge and expertise. Some of these SMEs helps the company enhance their business capabilities and understand the value of using eco-friendly fabrics. This partnership also help Annala in partaking in networking events to build relationships and showcase company's offerings.

The company has depended on the biggest Finnish logistic company (Posti) and other international company which Annala do not reveal for it transfer and deliveries of products within and outside the country.

**Key Activities**

K&H Annala is a Finnish fabric company that specializes in the design, production, and distribution of high-quality eco-friendly fabrics. The company focuses primarily on providing its customers with superior products for various applications, ranging from clothing and upholstery to industrial and technical textiles.

The Company has a dedicated team of designers and product developers who work closely together to create innovative and aesthetically appealing fabric designs. They stay up-to-date with the latest fashion trends, consumer preferences, and market demands to develop textiles that are both functional and visually appealing.

K&H Annala sources high-quality raw materials, such as natural fabrics like cotton, wool, linen, polyester, nylon, and blended materials, from reliable and sustainable suppliers. The company's procurement team ensures that the materials meet strict quality and environmental standards. K&H Annala Oy also uses specialized machinery and production processes to manufacture its fabrics. This includes spinning, weaving, knitting, dyeing, printing, and finishing processes. The company quality control is an important aspect of their production, with rigorous testing and inspection to ensure the final product meets the customer requirement and standard.

K&H Annala markets its products through different channels, including business-to-business (B2B) sales to fashion brands, interior designers, and furniture manufacturers, as well as business-to-consumer (B2C) sales through e-commerce platforms and social media.

K&H Annala understand the importance of partnering with other businesses and offering product samples to create long-lasting relationships and expand their market presence. K&H Annala establishes and maintains strong relationships with their partners through effective communication, trust-building, and mutual support. They may provide resources, technical assistance, or even co-create exclusive designs to cater to the specific needs of their partners.

To showcase their product quality, design capabilities, and range of offerings, the company may provide fabric samples to potential and existing partners. Samples can be in the form of swatches, fabric books, or small-scale finished products. These samples help partners assess the quality, texture, durability, and other properties of the materials before making a commitment to purchase. They also do collaboration and co-branding with its partners on joint projects, such as capsule collections, limited-edition items, or co-branded products. These collaborations can increase brand visibility for both parties, attract new customers, and strengthen their market position.

**Key Metrics**

Key metrics are essential indicators used by businesses to evaluate performance and monitor progress. For K&H Annala, the following are their key metrics in which the company monitor their performance and overall success. The first key metrics the company uses to evaluate its performance is customer acquisition cost (CAC). This is the average cost of acquiring a new customer, including marketing and sales expenses. This metric helps measure the effectiveness of the company's marketing and sales strategies.

Another metric is the Compound Annual Growth Rate (CAGR). In this case, is a metric that measures the average annual growth rate of a company over a specified period. For K&H Annala Oy, the CAGR metric is an essential indicator of their financial performance and the effectiveness of their business strategies. It represents the company's average yearly growth in terms of revenue, market share, or other relevant financial indicators. By calculating the CAGR, stakeholders can assess the company's long-term growth trends, compare its performance with competitors, and make informed decisions about potential investments or partnership opportunities. Lastly, is the revenue which is the total income generated from the sales of fabric products and services. This metric is crucial for evaluating the company's financial health and growth.

**Key Value Preposition**

The first value preposition of K&H Annala Oy is that the company’s product are high quality and 100% Finnish. “Annala is the only Finnish company producing furniture fabrics. We manufacture furniture fabrics for the needs of homes, public spaces and industry. In addition to our own collection, we weave order and project fabrics as well as fabrics for different brands' own collections. Our operations support the self-sufficiency of domestic responsible production and the preservation of the weaving and handicraft tradition in Finland” (Annala, ei pvm).

Another value preposition of the company is high-quality materials. Annala source and use only the best Eco-friendly fabrics and materials, ensuring a high level of quality in their products.

K&H Annala Oy also focus on creating unique and eye-catching designs that appeal to a wide range of customers, helping them stand out from competitors. Another value that was boast off during the interview with the company is their ethics and sustainable practices. The company emphasize eco-friendly and sustainable manufacturing processes, appealing to environmentally conscious consumers. In K&H Annala Oy, they offer a variety of customizable options, allowing customers to tailor their fabric choices to their specific needs and preferences. They also enjoy customer base and commitment due to their exceptional customer service: The Company focus on providing outstanding customer support, ensuring a positive experience for all clients. K&H Annala Oy take pride in producing their fabrics locally in Finland, supporting the local economy and promoting Finnish craftsmanship. In other to prove their Finnish pride, the company has a transparent system so that their customers and prospective customers can always monitor the process that leads to the final product. Also, Annala has a certified and honest suppliers who are committed to the supply chain. Annala also is able to design and produce within a limited time stream due to their fast and professional technology especially for the small quantity orders.

**Key Partners:**

K&H Annala has been doing business with some key partners over the years. These partners are important for the smooth running of the business. The partners includes Suppliers of raw materials. The most important part of the raw materials used by Annana are from Europe which the company refused to make public this supplier. K&H Annala also have customers in various industries in and around Finland. The importance thing about the supplier is that all the suppliers use the same ethical values like that of Annala.

Another important key partner of K&H Annala Oy is local and regional authorities. This are important with the transfer and interaction with customers. The company uses basically the local Posti logistic service to transfer small and big quantity of good around Finland while they use also other international logistic services for business outside Finland. The other key partner used by the company is the machinery and equipment providers. This maintenance company is important to the company to key all machinery and office equipment smooth running.

**Key Resources:**

K&H Annala Oy possess some specific and special key resources like skilled and experienced workforce. The most talented skilled worker of the company is Vesa Annala, Chairman of the board and “Grand old Weaving Master”: It was said from the interview I had the company representative, the He knows how the structure and patterns of the fabrics are programmed into the machines and is responsible for the operation of the weaving machines. Other key resources are seamstress, designers are other experience workers in the company.

Another valuable resources possess by the company is its modern facilities and equipment and access to raw materials. K&H Annala has committed suppliers who adhere to the company’s ethics. The company long-time and strong relationships with suppliers and customers is also key resources for the company.

Table 2 shows the percentage weight of key expense lines of the total monthly expenses

|  |  |
| --- | --- |
| **Expense lines** | **Percentage weight** |
| Office lease | Self-owned |
| Premises maintenance costs | 3% |
| Employees’ salaries | 35% |
| Marketing and promotion expenses | 7% |
| Taxes paid | 24% |

*Calculated by author, according to information, provided by Marketing Manager*

**Customer Segments:**

K&H Annala Oy has different customers which includes different SMEs companies across Finland and beyond, different brands in and outside the country which one of the biggest transport company (VR). Other customer segment includes Upholstery, Furniture companies, and interior designers. K&H Annala also target hotels, special home for their customised design

**Customer Relationships:**

Most of the customer relationship with personalized customer service happen mostly at the company showroom which is located at Helsinki. This office is mostly run by the company marketing manager who respond to most of the old and new customers. This relationship helps the company to have close collaboration with customers in other to understand each customer’s specific needs and requirements. K&H Annala also offer after-sales support and maintenance to its customers which has help the customer to gain more customer loyalty.

Regular communication with customers is also a constant practice by the company which, helps Annala to ensure customer satisfaction.

**Channels:**

K&H Annala make use of direct sales to customers in both large and little quantity. Most of the product can be ordered online and have the product delivered to customers.

K&H Annala has a strong marketing and advertising department through which they participate in trade shows, online platforms, and industry publications. Another channel through which the company does its business is referrals and recommendations from existing customers. Also, partnership with suppliers, domestic design houses and distributors are channels through which the company performs it business.

## Organizational Structure

K&H Annala Oy operate a flat organizational structure. A flat organizational structure, also known as a horizontal structure, involves fewer management levels and a broader range of control. This organizational structure promotes increased employee autonomy, quicker decision-making, and improved communication. The company's success has also been greatly aided by its flat organizational structure. K&H Annala Oy has developed a culture that promotes innovation, adaptability, and employee satisfaction by reducing hierarchies, encouraging open communication, and encouraging decentralized decision-making. This strategy has enabled the business to prosper in a cutthroat Finnish market and keep delivering high-quality, environmentally friendly products.

CEO

Warehouse Manager

Seamstress/ Weaver

Marketing/ Sales Manager

Project Design Manager

Chairman

*Fig.III shows the organizational structure of K&H Annala Oy*

Presently, K&H Annala Oy has 10 main employees in their Helsinki office according to the interview conducted with the company’s representative. The company started as a family business and grew to what it is now. This ten main employees are regarded as the engine room of the company. There are other contracted, part-time workers but these ten people mention below are the ones to run the major activities of the company.

**Hanna-Maria Kortesoja** CEO who is like the brain box of the company and oversees every operations of the company on the cooperate level. She is the daughter of the Grand Master Weaver, owner of the company. She is most time referred to as the company board chairman. Next is the CEO’s father known as **Vesa Annala**, Chairman of the board and “Grand old Weaving Master”: I was told that he knows how the structure and patterns of the fabrics are programmed into the machines and is responsible for the operation of the weaving machine.

Other workers includes: The one who plans fabric structures and practical implementation.

2-3 people working in the weaver who are responsible for production and the process of weaving. One seamstress who sews pattern books, as well as finished products for project items such as hotel bedspreads and pillow covers. Another working in the warehouse who handles sales to upholsterers and customer service by phone and email. He is aslo responsible for warehouse maintenance and delivery of goods. The company sales person. This person keeps contact with B2B customers, interior designers and many other partners and clients.

K&H Annala Oy also has a worker at their Helsinki Showroom who does the sales, marketing, online store maintenance, content production and social media contents.

**Table 3. Competitor Analysis for K&H Annala Oy in the South African Market:**

|  |  |  |
| --- | --- | --- |
| **COMPETITORS** | **STRENGTH** | **WEAKNESS** |
| 1. Nortex Textile | * Strong brand reputation in South Africa * High range product portfolio * Strong distribution network * High quality textile * Good relationship with customer base | * Small international presence compared to global competitors * High price * Supply chain limitation |
| 1. Da Gama Textile | * Culturally diverse and unique products * Sustainable and ethical practices * Good relationship with local designer | * Limited range of product * Relatively smaller production capacity * Unmatched increasing demand |
| 1. Marimekko | * International brand recognition * Loyal customer base * Trending and innovative designs * Strong partnerships and premium stores presence | * Higher price range * Limited local production and distribution capabilities in South Africa. * Not flexible enough to adapt to local preference design |

*Compiled using online sources*

The above table shows a summary analysis of the key competitors for K&H Annala Oy in the South African market.Nortex Textiles and Da Gama Textiles are the closest South African competitors with nicely-hooked up positions in the South African market place.

Nortex Textiles has a robust brand presence and a numerous product range, whilst Da Gama Textiles differentiates itself with African-stimulated designs and sustainable practices.

Marimekko, as a global competitor, brings particular designs and a global reputation, but can also face challenges in catering to neighborhood options and retaining aggressive pricing but not based in South Africa.

K&H Annala Oy should recall leveraging its Finnish origin and incredible fabrics as a unique promoting proposition within the South African marketplace.

Building strong partnerships with neighborhood shops and architects, together with centered advertising and promotional campaigns, will be vital for K&H Annala Oy to set up a competitive presence in South Africa.

**Table 4. Suitable Locations for K&H Annala Oy**

The table below shows the major cities in South Africa and their square footage with population.

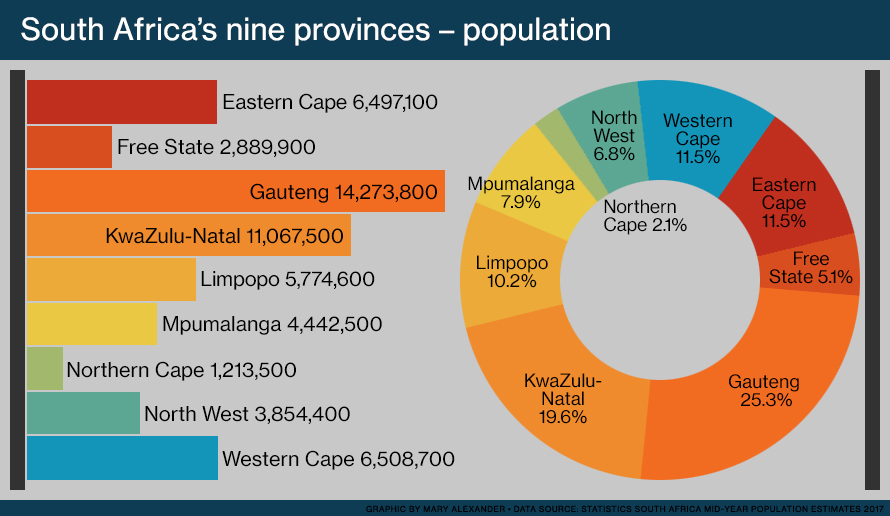
|  |  |  |
| --- | --- | --- |
| City | Square Footage (km²) | Population |
| Johannesburg | 1,645 | 5,635,127 |
| Cape Town | 2,461 | 4,004,793 |
| Durban | 2,292 | 3,827,100 |
| Pretoria | 1,644 | 2,490,000 |
| Port Elizabeth | 335 | 1,312,945 |
| Bloemfontein | 236 | 520,000 |
| East London | 168 | 430,000 |
| Nelspruit | 56 | 220,000 |
| Kimberley | 143 | 225,475 |
| Polokwane | 65 | 130,028 |

*Compiled using online information*

The above information is relevant in order to decide the city of penetration for K&H Annala Oy in South Africa depending on the choice of entry.

* Market Potential: The South Africa population numbers shows the potential consumer base in each city of the country. Johannesburg, Cape Town, Durban, and Pretoria are the largest cities in terms of population. These cities have higher market opportunities for the textile industry due to their large consumer populations. So it is advised for K&H Annala Oy to penetrate through Johannesburg. This is due to the fact the city has the highest population and very industrialized to support our business.
* Manufacturing Facilities: Square footage shows the land area available in the country for industrial development for new companies. The larger cities like Johannesburg, Cape Town, and Durban tend to have more significant industrial infrastructure, including manufacturing facilities for companies that need big landmass. This availability of space can attract textile manufacturers to establish production units and contribute to the growth of the industry.
* Distribution and Logistics: The geographic spread of cities across South Africa affects the textile industry's distribution and logistics networks. Cities like Johannesburg and Durban are major transportation hubs, facilitating the movement of raw materials, finished products, and supplies. Efficient logistics infrastructure is crucial for the textile industry to operate smoothly and deliver products to various markets.

Understanding these factors can help K&H Annala Oy stakeholders make informed decisions regarding investments, market strategies, and resource allocation in the South African market.



*Fig shows South Africa nine provinces - population*

Historically, South Africa has skilled vast disparities in GDP per capital among unique areas. The country is divided into 9 provinces, every with its personal financial characteristics. The Gauteng province, which incorporates Johannesburg and Pretoria, has traditionally been the wealthiest location in phrases of GDP in line with capita.

## VRIO Analysis

In other analyse the company resources, VRIO analysis was conducted which compares the company’s resources with competitors to find what the company’s sustained competitive advantages are. The VRIO framework is a strategic management tool used to analyze a firm's internal resources and capabilities to determine if they can provide a competitive advantage. Considering a company as the vehicle for customer value creation, the strengths and weaknesses need to be carefully analyzed, which is normally referred to as the internal analysis (Frambach, 2001). It concerns an appraisal of an organization’s resources and capabilities in the context of value creation opportunities and other external developments (Kraaijenbrink, 2010). Resources are the organization’s assets, knowledge and skills. Capabilities can be defined as the organization’s ability to effectively make use of its resources. This refers to the Resource-Based view (Hamel, 1990). Therefore, VRIO framework is applied to analyze K&H Annala Oy’s internal resources and capabilities to find out if they can be a source of sustained competitive advantage in the South African market entry. Moreover, the VIRO analysis involves the comparison of competition in the target market, I have selected the close competitors (Other Finnish fabric company in South Africa) based on the firm maturity. The detailed competitive analysis will be elaborated in the Porter’s 5 Forces analysis and competitive analysis.

**Table 5. The resources and capabilities are explained below:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **RESOURCES AND CAPABILITIES** | **VALUABLE** | **RARE** | **INIMITABLE** | **ORGANIZATION** | **Competitive** |
| High quality fabrics | Yes | Yes | Yes | Yes | Sustained advantage |
| Finnish origin (100%) | Yes | Yes | Yes | Yes | Sustained advantage |
| Design expertise (Designer & Machine Grandmaster) | Yes | No | No | Yes | Parity |
| Retail partnerships | Yes | No | No | Yes | Parity |
| Production capacity | Yes | No | No | Yes | Parity |
| Brand reputation | Yes | No | Yes | Yes | Sustained advantage |
| Logistics | Yes | No | No | Yes | Parity |

*Compiled using online sources*

**Explanation of VRIO Analysis:**

High-quality fabric: The manufacturing of brilliant fabrics by K&H Annala Oy is treasured as it may meet the demands of customers looking for premium products. It is likewise uncommon because now not all competition can also offer fabrics of the identical satisfactory. The exceptional of fabrics is inimitable because it calls for expertise and specialized production techniques. K&H Annala Oy is prepared to make the most this resource by means of making sure consistent manufacturing and preserving great requirements.

The Finnish origin of K&H Annala Oy can be a precious useful resource as it provides a unique promoting proposition to their logo in the South African market. It is also uncommon as now not many cloth agencies in South Africa can declare the same starting place. The Finnish beginning is inimitable and cannot be replicated by competition. K&H Annala Oy is prepared to take advantage of this useful resource by means of leveraging the reputation and belief of Finnish merchandise as notable and dependable.

K&H Annala Oy's design expertise is treasured in creating unique and appealing cloth designs. However, it is not rare as competition like Marimekko also own design know-how. It is not inimitable as other agencies can invest in design expertise. Nevertheless, K&H Annala Oy is organized to exploit this useful resource by way of continuously innovating and staying updated with the brand new design tendencies.

Having retail partnerships is valuable for K&H Annala Oy to show off their products in stores. However, it isn't rare as competition may additionally have partnerships with shops. It isn't always inimitable as different groups can set up similar collaborations. K&H Annala Oy is organized to exploit this useful resource with the aid of nurturing sturdy relationships with retailers and imparting appealing incentives.

While having production capacity is valuable, it isn't uncommon inside the material production industry. Competitors may also have their production facilities. It is not inimitable as other agencies can spend money on growing their production capability. K&H Annala Oy is prepared to make the most this resource with the aid of optimizing production tactics and making sure green production.

K&H Annala Oy's brand popularity is valuable as it could attract clients who recognize and accept as true with the emblem of their product. With the VRIO table that shows the areas where K&H Annala has shown to have sustained advantage which will in the long run show the areas where K&H Annala has competitive advantage against its competitors. The advantages are further explained below.

**Product Quality**

K&H Annala are known for their high-quality and sustainable products. The manufacturing of brilliant fabrics by K&H Annala Oy is treasured as it may meet the demands of customers looking for premium products. It is likewise uncommon because now not all competition can also offer fabrics of the identical satisfactory. The exceptional of fabrics is inimitable because it calls for expertise and specialized production techniques. South Africa has a growing demand for quality fabrics in various sectors, including fashion and interior design. K&H Annala's quality products can meet this demand and create value for customers in the market. The company offers a 100% Finnish product that is known for high quality and most especially, there product is eco-friendly which is the most important value the company will be offering on the South African market. There are few Finnish brands already on the South African market but none of them offers a 100% Finnish brand. K&H Annala's commitment to environmentally friendly and sustainable practices which can be a valuable asset in South Africa. The South African nation is increasingly conscious of environmental issues. K&H Annala offers a wide range of fabric products, which can cater to various customer segments and industries in South Africa.

**Rarity**

K&H Annala's unique and innovative Finnish designs can help the company distinguish or differentiate the company from local competitors in the South African market. South African young population loves to buy foreign branded clothes. With the Finnish reputation for quality and sustainability. K&H Annala's strong reputation as a Finnish company with high-quality and sustainable fabric products can be considered a rare attribute in the South African market. Other Finnish brand on the South African don’t have a 100% Finnish products.

**Imitability:**

K&H Annala's unique Finnish designs are difficult to imitate due to the company's experience and expertise in design, the cultural influences in their patterns and styles. Their designers and skilled artisans possess tacit knowledge that is not easily replicated by competitors.

Another difficult to imitate practise in Annala is their sustainable manufacturing Practices. While competitors may try to adopt sustainable practices, it takes time and investment to implement and perfect these processes. K&H Annala's experience in sustainable manufacturing can serve as a competitive advantage that is not easily imitated. Also, strong Supply Chain Relationships. K&H Annala's long-term relationships with suppliers and partners, both in Finland and globally, contribute to their ability to source high-quality materials and maintain efficient production. These relationships may be difficult for competitors to imitate, especially in the short term.

**Organization:**

K&H Annala's management team is committed to the company's core values, such as quality, sustainability, and innovation. This commitment helps drive the company's competitive advantage and organizational capabilities. K&H Annala has a skilled workforce with expertise in design, manufacturing, and sustainable practices. This talent pool allows the company to maintain its competitive advantage in the South African market. Furthermore, K&H Annala's commitment to employee training and development ensures that the company is continuously improving its capabilities. The company has its unique marketing and distribution Strategy. K&H Annala's marketing strategy focuses on promoting its unique Finnish designs, high-quality products, and sustainable practices. This strategy will helps position the country as a premium brand in the South African market.

**Key success factors of K&H Annala Oy in the South African market**

K&H Annala Oy has leveraged several key success factors to gain a significant foothold in the South African market. The first success factor the company can leverage is **product differentiation**. K&H Annala Oy will have to emphasize its unique selling propositions, such as high-quality fabrics and 100% Finnish craftsmanship. Differentiating its products from competitors will help K&H Annala Oy attract customers who value premium materials and exceptional design. New designs that can be gotten by merging Finnish into South African craftsmanship.

The second factor for success in the South African textile market is **market adaptation**. Adapting to the local market preferences and trends that is constantly changing is crucial for success in South Africa. K&H Annala Oy by understanding the South African consumers' preferences, cultural influences, and design innovativeness. K&H Annala Oy incorporating elements that will be well received in the local market, K&H Annala Oy can better position its products to meet the South African customer expectations.

The third success factor for K&H Annala Oy **is strong distribution network by partnership**. Establishing strong partnerships with local retailers and distributors is vital. Collaborating with reputable stores that align with K&H Annala Oy's brand image and target customer base will help increase visibility and accessibility of their products in the South African market. A well-structured distribution network will facilitate efficient product placement and maximize market reach.

The next success factor is **product pricing**. While maintaining the quality and uniqueness of products, K&H Annala Oy will have to carefully consider pricing strategies to remain competitive in the South African market. This can be done by conducting pricing research to ensure a fair value proposition that aligns with customer expectations on pricing and K&H Annala Oy should be favourably compared with competing brands in other to attract price-conscious consumers.

**Marketing and branding** is another success factor for K&H Annala Oy in the South African market. Developing a strong brand presence and effective marketing strategies will definitely play a significant role in K&H Annala Oy's success. This strategies may include investing in targeted marketing campaigns, social media presence, and collaborations with local social media influencers or designers who can help promote the brand to the South African audience. Consistent campaign branding and storytelling that highlight the unique qualities of K&H Annala Oy's products will resonate with consumers and create brand loyalty.

The final factor is **customer engagement and service**. Building strong relationships with customers is important for long-term success especially in the African culture. K&H Annala Oy must focus on providing excellent customer service, ensuring timely delivery of products, and addressing or responding to customer inquiries promptly. Constant engagement with customers through personalized interactions, feedback, and loyalty or promotions programs will foster brand loyalty and positive word-of-mouth recommendations.

## Primary SWOT Analysis

In other to identify areas where the company is doing well and areas where the company needs extra attention, there is need to conduct a comprehensive SWOT analysis of K&H Annala Oy, analysing its strengths, weaknesses, opportunities, and threats. This analysis aims to provide an overview of the company's current position in the market as regards to the South African textile market and to suggest strategies for its growth and development.

**Table 6. SWOT Analysis**

|  |  |
| --- | --- |
| **STRENGHT**   * Valuable Finnish expertise * Diversified product line and techniques * High-quality fabrics * Strong brand recognition * Technological leverage * Supply chain management | **WEAKNESS**   * Limited distribution network * Higher pricing * Intense competition * Dependency on its key suppliers * Potential supply chain challenges |
| **OPPORTUNITY**   * Growing demand for premium fabrics * Expansion of distribution network * Partnerships with local designers * Increase in consumer awareness of quality | **THREAT**   * Strong local competitor (Nortex and Da Gama Textiles) * Shifting in consumer preferences and fashion trends * Entry by other international fabrics companies * Price competition from local competitor |

*SWOT analysis of K&H Annala Oy compiled by unstructured interview*

* **Strengths of K&H Annala Oy**

One of the primary strengths of K&H Annala Oy lies in its **rich history and extensive experience in the Finnish textile industry**. The company has been in operation for over 60 years and has established a strong reputation for its excellent quality fabrics and innovative designs. Additionally, K&H Annala Oy has a diverse portfolio of products catering to different segments of the market, including industrial textiles, home textiles, and technical textiles. They received the 2018 Finnish Sustainable Business Award for the company’s commitment to environmental stewardship and social responsibility. K&H Annala Oy was also been recognized in multiple reputable publications for its innovative fabric designs and eco-friendly business practices.

The company also has a well-established distribution network across Finland and Europe, enabling it to reach a wide customer base efficiently. This degree of market penetration and knowledge of customer preferences gives the company a significant advantage over its competitors in the textile industry, enhancing its prospects for long-term success.

Another key area of the company that can be regarded as strength is that K&H Annala Oy has a **diversified product line and techniques** that includes a vast range of fabrics for different sectors. The company's products cater to the needs of customers ranging from industrial to residential sectors, as well as high-end fashion designers who require sophisticated fabrics. Additionally, K&H Annala Oy produces eco-friendly and sustainable fabrics, which are increasingly in demand in the global market. Furthermore, the company's diversified product line allows it to mitigate the risk of market saturation and stabilize its revenues. Consequently, K&H Annala Oy can capitalize on its strengths and stand out in the market competition by offering versatile products that satisfy the varied requirements of customers.

**High-Quality assurance measures** are an integral part of any business that aims to provide exceptional products or services to its customers. K&H Annala Oy realizes the importance of quality assurance measures and has put several mechanisms in place to ensure that their products meet the desired standards. Their quality assurance measures include regular monitoring of production processes, ensuring adherence to quality standards, conducting product testing, and soliciting customer feedback. The company has an in-house team that conducts inspections during the production process, and the final products are subjected to rigorous testing before being released into the market. Additionally, K&H Annala Oy regularly solicits feedback from customers to ensure that their products meet their preferences and expectations. These quality assurance measures have helped the company to build trust and confidence among its customers, resulting in increased customer loyalty and brand reputation.

Another key strengths of K&H Annala Oy is their **strong brand recognition and reputation** within the industry. The company has been operating for over 100 years and has established itself as a reliable and high-quality fabric supplier. Their reputation has been built on a foundation of producing top-quality products that meet the needs of their customers. Additionally, K&H Annala Oy has invested in marketing efforts that have helped to establish their brand as a leader in the industry. Their website, social media presence, and participation in trade shows have all helped to increase their visibility and recognition. By having a strong brand identity, K&H Annala Oy is able to differentiate itself from its competitors, which will help to ensure its continued success in the marketplace.

One of the strengths of K&H Annala Oy is its **wide customer base**. The company caters to a diverse group of customers, ranging from fashion designers and clothing manufacturers to furniture and interior design companies. This diverse set of customers allows K&H Annala Oy to not only spread its risk, but also provide a wide range of services and products to its customers. Moreover, the company's ability to serve a large number of customers is indicative of its established reputation and brand image. Due to this wide customer base, K&H Annala Oy is able to maintain a steady stream of revenue and maintain its position as a leading fabric company in Finland.

K&H Annala Oy has a significant opportunity to expand its international distribution network to increase its market share and profitability. Growing its distribution network in markets such as Asia and North America will allow the company to leverage its production capabilities and tap into new customer segments. This move can help the company to mitigate its market risks in the home market, which constitutes the majority of the company's sales. However, expanding into new markets comes with its set of challenges, such as cultural, legal, and language barriers, and increasing competition from established players. Therefore, K&H Annala Oy must execute a well-thought-out strategy aimed at building local partners and distributors, adapting to cultural differences, and investing in employee training to overcome these challenges.

Furthermore, K&H Annala Oy has been able to **leverage the recent technological advances** in manufacturing processes. The company has implemented a range of advanced technologies, such as automated cutting machines, digital printing technology, and computer-aided design (CAD) software for pattern-making. These technologies have enabled the company to increase its production efficiency, reduce waste, and offer more customized products to its customers. As a result, K&H Annala Oy has been able to improve its overall competitiveness in the textile industry and meet the increasing demands of the modern consumer. In addition, the adoption of these technologies has also helped the company to maintain high-quality standards and minimize errors in production. Hence, the technological advances in manufacturing processes have been a significant strength for K&H Annala Oy.

One key strength of the company is the financial stability of K&H Annala Oy is a strength worth noting in this SWOT analysis. The company's financial performance has been strong over the past five years, with consistent growth in revenue and profitability. The company's net profit margin has also been consistently higher than the industry average. Additionally, K&H Annala Oy has a low level of debt on its balance sheet, indicating a responsible approach to financial management. This financial stability gives the company the ability to reinvest in its operations, pursue growth opportunities, and weather any potential economic downturns. Overall, K&H Annala Oy's strong financial position is a key asset that provides a competitive advantage in the industry.

* **Weaknesses of K&H Annala Oy**

Despite K&H Annala Oy's strengths in its innovative design process and high-quality materials, there are several significant weaknesses that could hinder the company's growth and profitability. Firstly, K&H Annala Oy has a limited distribution network, which restricts the company's reach to potential customers. Secondly, K&H Annala Oy product are not cheap and considering the economic setting of South Africa, only portion of financially buoyant people can afford their product. Additionally, K&H Annala Oy faces intense competition from other fabric companies in Finland, which could negatively affect its market share and profitability. Finally, the company has a high dependency on its key suppliers, which could result in a shortage of raw materials in times of high demand, causing a delay in the production process. K&H Annala Oy needs to address these weaknesses to ensure its long-term success in the highly competitive fabric industry.

One major weakness of K&H Annala Oy is their limited market share. As a smaller, family-owned company, they struggle to compete with larger, well-known brands in the fabric industry. They face difficulty in expanding their customer base and increasing brand recognition. This lack of market share can also limit their ability to negotiate favourable prices with suppliers and to invest in research and development. Furthermore, it makes them vulnerable to shifts in consumer preferences and economic downturns. In order for K&H Annala Oy to grow and remain competitive in the industry, they will need to develop a strong branding strategy and find innovative ways to increase their market share.

Another weakness of K&H Annala Oy is the high dependence on a few big clients. The company relies heavily on its top two clients, which generate almost 50% of its revenue. Additionally, the company has a limited number of clients overall, with the top five clients accounting for almost 70% of its revenue. This dependence on a few clients puts the company at risk if one or more of them decide to terminate their business relationship. Furthermore, there is a risk of the company becoming complacent and not actively seeking out new clients or diversifying its customer base. K&H Annala Oy needs to address this issue by actively seeking out new business opportunities and diversifying its client base to mitigate the potential risks involved.

One big challenge K&H Annala Oy can face in the South African market is supply chain. Since the company main suppliers are mainly from Europe, it might be a challenge for the company to sustain that channel especially with the current international logistic challenge cause by the Russian military action in Ukraine.

* **Opportunities for K&H Annala Oy**

K&H Annala is known for its eco-friendly products and with the increasing global awareness of climate change and environmental sustainability, there is a growing demand for products that are produced using eco-friendly methods and materials. K&H Annala Oy could increase their line of fabrics that incorporate organic, recycled, or biodegradable materials or invest in technologies that minimize their environmental footprint, such as water-saving dye technology. By capitalizing on this growing trend, K&H Annala Oy could attend to new customers while also demonstrating their commitment to corporate social responsibility. However, it would require significant investment in both research and development and marketing efforts to successfully expand on this market.

One significant trend that is currently shaping the fashion industry is the growing demand for sustainable and eco-friendly products. Consumers are becoming more aware of the impact that fashion has on the environment and are seeking alternatives that are produced using ethical and sustainable practices. This trend is not limited to clothing, but it also encompasses accessories, shoes, and even packaging. As a result, fashion companies like K&H Annala Oy have started to integrate sustainable practices into their production processes to cater to the changing demands of their customers. By embracing the use of environmentally friendly materials and promoting ethical production processes, K&H Annala Oy can cater and access into the hearts of the large pool of eco-friendly customer growing demand for eco-friendly fashion while also positioning themselves as an industry leader in the sustainable fashion movement.

One of the major strengths for K&H Annala Oy lies in the **increasing adoption of online** **sales** channels by customers. With the vast majority of customers preferring to purchase products online, the company has an opportunity to capitalize on this trend and expand its online presence. This will not only allow K&H Annala Oy to reach a wider customer base, but it will also facilitate the company's ability to provide real-time and convenient shopping experiences for consumers. The online sales channels also provide an opportunity for the company to gather information about customer preferences and tailor its products and services to meet their needs. By improving its online sales channels, K&H Annala Oy can continue to grow its customer base, increase revenue, and gain a competitive edge in the market.

The expanding global textile industry has presented both opportunities and challenges for K&H Annala Oy. On one hand, the company has the potential to tap into larger global markets and increase their customer base. However, this expansion also presents challenges in terms of competition from other companies in the industry, as well as potential supply chain issues. K&H Annala Oy must remain vigilant and adaptable in order to navigate these challenges while taking advantage of the opportunities available in the global textile market.

Also, Venturing into new market niches can be a strategic move for companies looking to expand their market share and increase profits. K&H Annala Oy, being a Finnish fabric company, should consider exploring new market niches to remain competitive in the industry. However, it is important to conduct thorough market research to identify profitable and sustainable niches. The company should also consider the resources needed to penetrate these markets and whether they align with their overall strategic goals. By successfully identifying new market niches and entering them strategically, the company can diversify their customer base, increase revenue streams, and position themselves as industry leaders in the long run.

K&H Annala Oy should consider the **acquisition of competitors and forming collaborative partnerships** as a strategic option to enhance its position in the fabric industry. Acquiring competitors can help K&H Annala Oy achieve economies of scale, reduce competition, and widen the customer base. Collaborative partnerships can create synergy, reduce costs, and unlock new market opportunities. However, choosing the right partners and ensuring compatibility with the company's values and goals is crucial for successful collaboration. Moreover, K&H Annala Oy should ensure that the benefits of the partnership outweigh the risks and invest in building strong relationships with partners. Acquisition and partnership can be challenging and require careful consideration and implementation, but they present an opportunity for K&H Annala Oy to strengthen its position in the fabric market and achieve sustained growth.

The increasing **demand for customized products and services** presents both an opportunity and a challenge for K&H Annala Oy. On one hand, the ability to offer personalized and tailored solutions to customers can set the company apart in a crowded marketplace and potentially boost sales. On the other hand, the demand for customization may require significant investment in technology and training, as well as potentially longer lead times and higher costs for individualized products. Additionally, the trend towards customization may not be sustainable in the long-term, and the company should carefully consider how to balance this demand with traditional manufacturing practices and economies of scale.

* **Threats to K&H Annala Oy**

The threats to K&H Annala Oy includes **competitive pressures** from both domestic and international players in the industry, changes in consumer preferences and fashion trends, and the volatility of raw material costs. Competitors in the industry are offering similar products at lower prices, which is putting pressure on K&H Annala Oy to improve its cost structure and become more efficient. Furthermore, changes in consumer preferences and fashion trends may lead to a reduction in demand for K&H Annala Oy's products, which could affect its revenue and profitability. Finally, the fluctuating costs of raw materials, such as cotton and synthetic fabrics, pose a significant risk to the company as it may lead to cost overruns or a reduction in profit margins. Therefore, K&H Annala Oy must monitor these threats and take proactive steps to address them to maintain a competitive edge in the industry.

## Assessment of International Readiness

K&H Annala Oy is a Finnish fabric company that has been in business for over five decades. In order to understand the company's international readiness, it is important to evaluate its operations, business model, and strategic positioning in the global market. The company's competitive advantage lies in its unique designs and highly skilled and experienced workforce who have been able to maintain consistency in the quality of their products. They offers a diverse or wide range of fabrics that includes organic cotton, linen, and sustainable synthetics like recycled polyester. K&H Annala Oy has also been able over the years to develop a good fabric blend called "EcoFinn," which is made from a combination of organic fabrics and recycled materials, which has gained popularity in the fashion industry.

However, the company has limited international exposure and has only dealt with a select few countries in Europe and Russia. Here I will provide a comprehensive assessment of the international readiness of K&H Annala Oy and how well positioned it is to expand its business to the South African fabric market. With the South African economy growing and the demand for fabrics increasing, and most importantly, the loss of their Russian market, there is huge potential for K&H Annala Oy to expand its business overseas. It is essential to evaluate the company's readiness to meet global standards and its ability to adapt to South Africa market dynamics in order to ensure its success in the South African textile market.

K&H Annala Oy’s international readiness is also assessed through an analysis of its current global operations, competition, and overall market potential. The company has a strong presence in the European fabric market, mainly due to its impressive range of products and quality standards. However, K&H Annala Oy's current operations in African markets are limited, and therefore, the company needs to expand its operations globally to enjoy sustainable growth. One of the key aspects of the company's readiness to internationalize is its ability to compete with other fabric manufacturers in Africa while still maintaining its focus on quality control. Given the strong competition within the South African fabric market, I belief that K&H Annala Oy’s products can meet the market's unique needs while still maintaining the company's high standards. The company's current financial situation also affects its readiness to expand internationally. With K&H Annala Oy financial standings, we believe that the company has sufficient funds to support its global operations and marketing costs, which can be a challenge given the significant capital investment required. The financial capabilities and standing of K&H Annala Oy will be elaborated on in the paragraph dedicated to financial plan. The company is also considering the establishment of strategic partnerships with local distributors to help drive sales and lower operational costs.

The company can enhance its marketing strategies to increase its brand awareness across the African markets. Through a comprehensive analysis of K&H Annala Oy's readiness to internationalize, it is clear that while the company has the potential to be successful in expanding globally, it needs to address specific issues to ensure that it can achieve sustainable growth in the long term.

**Strengths and weaknesses of the company in terms of internationalization**

K&H Annala Oy's internationalization strategy has displayed several strengths and weaknesses. To begin with, the company's strengths in internationalization lie in areas such as its focus on high-quality standards and innovation, which enable it to offer distinct products that appeal to various consumers in foreign markets. K&H Annala Oy has established itself as a strong presence here in the Nordic part of the market. They are known for its innovative designs and their strong commitment to sustainability. They have also been able to expand presence in European markets, particularly in countries like Germany, France, and UK, through strategic partnerships and collaborations.

Also, the company has established a network of sales agents and distributors throughout Europe and Southeast Asia, which provides it with the leverage to penetrate new markets with ease. K&H Annala Oy also has a strong financial footing, which can help to finance its internationalization activities. However, the company's weaknesses in terms of internationalization come from the lack of a clear strategy, limited resources, and insufficient knowledge of the specific needs and preferences of its target markets. These shortcomings have made it challenging for the company to achieve sustainable growth in the international market. The company's organizational culture and lack of capacity to embrace change and adapt to new markets are hindrance to K&H Annala Oy in achieving its expansion objectives which will also be addressed in this work. Therefore, K&H Annala Oy will focus on overcoming its weaknesses while leveraging its strengths to create a sustainable competitive advantage to prosper in the competitive international business environment.

**Past and Present Internationalization Efforts**

K&H Annala Oy has undertaken various internationalization efforts in the past and continues to do so in the current times. In the past, the company focused on making strategic partnerships with retailers and distributors in several countries; this enabled K&H Annala Oy to expand its market reach and gain valuable insights into the preferences and demands of customers in different regions. The company leveraged its brand reputation to gain entry into new markets, such as Russia, where it collaborated with some retail chains to increase its product visibility. Currently, the company is putting in place measures that will enable it to compete more effectively with other players in the Eco-friendly fabric industry. These measures include increasing the diversity of its product range to cater to new markets and expanding its production capacity to support increased demand. They implemented a system called closed-loop production system which help to reduce waste and protect resources. Another measure put in place by the company is that they have collaborated with local farmers to source organic materials, supporting regional agricultural in many communities and reducing carbon emissions from transportation of these materials.

Furthermore, K&H Annala Oy has embraced modern technology, such as the use of e-commerce platforms to reach more customers and develop new sales channels. So, K&H Annala Oy's past and current internationalization efforts have been successful, enabling it to establish a strong international presence and position itself in a good position in the fabric industry. The company's continued commitment to internationalization offers a promising outlook for its future growth and sustainability in the global marketplace.

**Opportunities and Threats of Expansion**

Expanding internationally presents opportunities and threats for K&H Annala Oy. On the one hand, entering new markets can help the company diversify its revenue streams, increase its customer base, and gain a competitive advantage. For example, by entering the South African market, K&H Annala Oy can tap into a large pool of potential customers who have different preferences and needs than its existing customers. This can help the company develop new products and services that cater to these customers, which can in turn increase the company's profits. South Africa is a nation which rich history in arts and culture and K&H Annala Oy can really make use of its design technology to tap into this rich culture with design fabrics having African design and arts. On the other hand, expanding internationally also presents several threats. First, entering new markets can be costly and risky. The company will need to invest in research and development, marketing and advertising, distribution, and other activities to establish itself in these markets. Secondly, entering new markets can expose the company to new legal, regulatory, and cultural challenges that it may not be familiar with. For example, the South African fabric market has unique cultural and regulatory aspects that must be taken into account. This can require additional resources and expertise, which can be a barrier to entry. Therefore, K&H Annala Oy needs to carefully weigh the opportunities and threats of expanding internationally before making a final decision.

In conclusion, K&H Annala Oy’s international readiness is strong, and its potential for success is strong, given its market position, product quality, and effective operating practices. However, it should aim to increase its market share in the South African market by understanding the needs and preferences of local customers, research and development for the production of eco-friendly fabrics, and establishing a reliable distribution system in the country. The South African fabric market presents opportunities for growth due to the rising demand for quality textiles, and the conducive economic and political environment. The textile industry in South Africa is expected to grow steadily in the coming years, presenting a significant opportunity for potential entrants into the market. As such, K&H Annala Oy should take advantage of the favourable conditions to increase its international presence and tap into the growing demand for quality and sustainable fabrics. The company should also strive to strengthen its supply chain and distribution channels to ensure timely delivery of the products to the market. Overall, K&H Annala Oy’s international readiness and industry-specific analysis for the South African Market make it a potential player in the global textile industry.

## Conclusion of Chapter 1

The above study shows that K&H Annala Oy exhibits a moderate level of international readiness, although there are areas that need improvement. K&H Annala Oy’s international readiness is strong, and its potential for success is strong given its market position, product quality, and effective operating practices. However, it could aim to increase its market share in the South African market by understanding the continuous change in needs and preferences of local customers, development of the production of eco-friendly fabrics, and establishing a reliable distribution system in the country. The industry-specific analysis for the South African fabric market shows that K&H Annala Oy has the potential to expand their market reach in this region, but it is crucial for them to understand the cultural traits and preferences of the target market. To succeed in the South African market, K&H Annala Oy must integrate innovative techniques to increase the efficiency of their production process, improve their supply chain management, and provide adequate customer service. Additionally, the company needs to develop marketing strategies that align with the South African cultural context, which includes sensitivity to the socio-economic and political environment. K&H Annala Oy will also need to establish strong partnerships with South African businesses, to facilitate the creation of local jobs which will help the company establish a solid presence in the region. Also, with a firm commitment to global competitiveness, adherence to ethical and sustainable practices, and an investment in research and development, K&H Annala Oy has the potential to succeed in the South African market and beyond. This is due to the fact that South African fabric market presents opportunities for growth due to the rising demand for quality textiles, and the conducive economic and political environment. The textile industry in South Africa is expected to grow steadily in the coming years, presenting a significant opportunity for potential entrants into the market. As such, K&H Annala Oy should take advantage of the favourable conditions to increase its international presence and tap into the growing demand for quality and sustainable fabrics.

# CHAPTER 2: EXTERNAL ANALYSIS, SOUTH AFRICAN MARKET, THE

# MARKET PROFITABILITY, THE COMPETITIVE ENVIRONMENT

## The PESTEL Analysis

PESTEL Analysis is a tool and is essential in this case for Annala Oy as it helps us to understand and evaluate the external factors that can influence Our Company’s operations, performance, and growth. This analysis enables us to make informed decisions, and also to develop effective strategies, and adapt to the ever-changing business environment in South Africa. PESTEL analysis is a valuable tool for useful for Annala to navigate the difficulties of the external environment. It enables organizations to identify the various opportunities and threats, to manage risks, make strategic decisions, and develop strategies that contribute to their long-term success.

**Brief overview of South African fabric and textile industry**

South Africa's fabric and textile industry has a rich history with a significant contribution to the country's economy and it plays a vital role in job creation and exports. Currently, the industry contributes over 3.5% to the country's GDP, and it employs approximately 100,000 people. One of the most notable aspects of the South African fabric and textile industry is the diverse range of fabrics produced, which includes cotton, silk, wool, and synthetic fibres. Also, the industry has an array of applications, including fashion, home textiles, and industrial use. However, the industry has not been immune to challenges. The industry has faced significant competition from low-cost production countries like China and Bangladesh, forcing many South African textile companies to shut down with some moving production to countries with lower labor costs. Despite the challenges, the industry is still thriving, and many companies have found ways to remain competitive, such as incorporating technology and sustainable practices into the production process.

Another important aspect to consider in the analysis of the South African fabric and textile industry is the political environment, which can have a significant impact on the industry's development. In South Africa, the government has implemented a number of initiatives to develop the textile and clothing industry such as the Clothing and Textile Competitiveness Programme. However, South Africa's political instability and corruption is still a concern for investors which can hinder the growth of the industry. The industry needs stable policies for continued development. Additionally, the government's environmental policies can also affect the industry. The country is a signatory to international agreements such as the Paris Climate Accord, which may lead to changes in regulations and standards for sustainable production, especially for the production of cotton. It is vital to examine the political and environmental factors that may affect the industry to anticipate future changes in policies and practices that will impact it.

Political factors

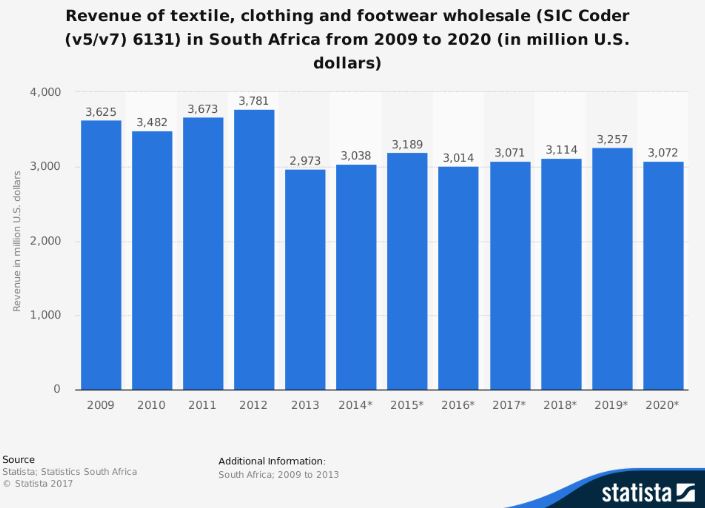
Political factors play a significant role in the South African fabric and textile industry. One of the key factors is the **government's intervention in the industry through trade policies and regulations**. Many challenges have impacted the South African clothing and fabric enterprise because the transition to democracy passed off in the 1990s. Higher wages and decrease demand have caused a steady decline in employment opportunities. The industry has averaged activity lack of about 4000 people per year. **Cheap imports** have additionally made it tough for industry specialists to be aggressive. Import will increase from China, particularly, were devastating. Some years saw import boom of extra than 700%.The government has implemented various policies to promote the industry's sustainable growth and development, such as the Clothing and Textiles Competitiveness Programme. Additionally, the government aims to promote local manufacturing and support local businesses through preferential procurement policies.

**Political instability and social unrest** are also factors that affect the industry's performance, directly or indirectly. Strikes and protests may lead to production delays and disrupt supply chains, affecting revenue and profits. Lastly, **changes in political leadership and policies** may result in the industry's uncertainty, making it difficult for companies to plan and invest in the long term. Political stability and a supportive government are crucial for the industry's success and growth.

**Economic factors**

One of the most important economic factors impacting the South African fabric and textile industry is the persistent issue of **unemployment**. High unemployment rates translate to lower consumer disposable income, which in turn affects the demand for textiles and fabrics. The country's economy has been historically reliant on mineral exports, and the industry has been adversely affected by the decline in mineral demand globally. The South African clothing and textile enterprise, which includes shoes and leather-based, is chargeable for about 14% of the overall manufacturing employment within the US (Business Partners Limited)

About 8000 people are employed at any given time through the enterprise. During top instances of production, employment stages can attain as much as 120,000. Most of the jobs are focused round KwaZulu-Natal and the Western Cape. (Business Partners Limited)The stability of its currency, the rand, is also a significant economic factor. Fluctuations in currency value can impact the cost of imports, exports, and raw materials, ultimately affecting the profitability of businesses in the industry. The ongoing issue of energy supply and reliability is another economic factor that affects the sector, as the high cost of electricity and water impacts production costs. Finally, the government's policies and regulations form another essential factor affecting the industry's growth and profitability. Depending upon the policy decisions, the textile and fabric industry can present a challenging or enabling environment for firms that operate within it.



*Fig IV. showing revenue of the industry according to Statista*

On the average year, the apparel and textile enterprise contributes approximately 1% of South Africa’s GDP. (Business Partners Limited). About 30% of the products which are manufactured with the aid of the industry are sold regionally. (Business Partners Limited). South Africans spend approximately 5% of the whole monthly earnings on merchandise generated by way of the clothing and textile industry. That comes to the equal of approximately $48 in line with month. (Flanders Investment and Trade). Before South Africa transitioned to a democratic authorities shape, the apparel and textile enterprise hired extra than 250,000 people. (The Journalist). Local production enterprise sales had been R50 billion in 2015, which become a 21% increase over figures from 2010. From 2005-2010, nearby enterprise income simply shrivelled by 6%. (The Journalist)

**Sociocultural factors**

Sociocultural factors are a major determinant of the South African fabric and textile industry's success. The industry has been affected by a range of social and cultural factors, including the country's **history of racial segregation and inequality**, the current societal divisions and class disparities, and the changing consumer habits and preferences. 26% of the employees which are hired by using the enterprise communicate IsiZulu as their home language. Another 20% communicate Afrikaans. English comes in 0.33, reflecting 18% of the employment population. (Fibre Processing and Manufacturing Sector Education and Training Authority). 72% of the employees hired with the aid of the apparel and fabric industry are women. 38% of employees are between the ages of 21-25. Another 27% of employees are beneath the age of 20. (Fibre Processing and Manufacturing Sector Education and Training Authority)

Men are much more likely to be concerned in the textiles section of the industry, accounting for 40% of overall employment. (Fibre Processing and Manufacturing Sector Education and Training Authority). The industry has been forced to adapt to the changing landscape by embracing diversity and inclusivity, expanding its reach to previously underserved markets, and developing innovative products that cater to the shifting tastes and demands of consumers. Additionally, South Africa's **cultural diversity** provides ample room for creative expression and innovation in the textile and fashion industry. It is imperative that companies operating in this industry not only understand but also leverage the social and cultural dynamics of the South African market to remain competitive and successful.

**Technological factors**

Technological factors play a significant role in the fabric and textile industry. The emergence of **e-commerce** has empowered consumers to shop online, creating a demand for an efficient online platform. The industry is also positively affected by the growth of green technology, which has resulted in eco-friendly fabrics and dyes. The adoption of **automation in the manufacturing process** has increased productivity while decreasing labor costs. Technological advancements have led to the development of innovative and advanced fibres, such as smart textiles, which can react according to the external environment. However, these advancements require substantial investment, and only established firms can afford them, thereby creating a barrier to entry for new firms. Furthermore, the fast-paced nature of technological advancements means companies have to adapt quickly, and those failing to do so risk losing their competitive edge. In conclusion, technological factors have significantly impacted the fabric and textile industry, with its impact set to continue well into the future.

**Environmental factors**

Environmental factors play a significant role in the textile and fabric industry in South Africa. To start with, the **demand for sustainable and eco-friendly products** has increased in recent years. This shift in consumer preferences has forced industry players to adopt a more sustainable approach to their manufacturing processes. Companies that cannot adapt may face reduced demand for their products. Secondly, **climate change** can also affect the industry. South Africa is susceptible to extreme weather conditions, which can impact the production of cotton and other raw materials. Thirdly, the government has introduced **regulations to protect the environment**, such as reducing the amount of water that industries can use. Compliance with these regulations can increase production costs for textile and fabric manufacturers. Companies that do not align with these environmental regulations may face fines or legal action, damaging their reputation and profitability. The quantity of families in South Africa with a purpose to include an ultra-excessive net really worth is forecast to develop by using 59% by using the year 2024. Two towns in South Africa, Cape Town and Johannesburg, are rated in the Global Top forty in significance on this vicinity. Tax systems are affordable, business cultures are tremendous, and wages are aggressive. South Africa does face positive demanding situations inside the coming days that may have an effect on the achievement of this industry. Cape Town is going through an uncertain and unparalleled water scarcity, rationing water to just 6.6 gallons per person. Since it is able to take almost 3,000 gallons of water to supply a single t-shirt, those challenges aren't going to go away. The enterprise have to focus on the usage of recycled water and observe enzymatic techniques to reduce water. Over time, this will create delivered profitability for the enterprise, however will be a huge capital funding for some.

**Legal factors**

Legal factors are an essential aspect to consider when analysing any industry. In South Africa, the textile and fabric industry is influenced by a range of legal factors. For instance, there are **strict laws and regulations** in place to protect the intellectual property rights of textile companies. Moreover, the government has implemented labor laws to protect the rights of textile workers, including health and safety issues, minimum wages, and working hours. In 2019, the government introduced a South African Local Content Policy that requires textile companies to use at least 65% of local materials for products aimed at government procurement. This policy aims to support the growth of the domestic industry and create jobs. Additionally, textile and fabric companies in South Africa must comply with environmental regulations that promote sustainable operations. Failure to comply with these regulations can lead to hefty fines, tarnish brand image, and negatively impact a company's overall performance.

## Porter’s 5 Forces analysis

Porter's 5 Forces Analysis is another framework that can be used to analyse the competitiveness of the South African fabric and textile industry. This model assesses five different factors that determine the industry's level of competition: the threat of new entrants, the bargaining power of suppliers, the bargaining power of buyers, the threat of substitutes, and the intensity of rivalry among competitors. In terms of the South African fabric and textile industry, the threat of new entrants is low due to the significant capital investments required to establish a new company in the industry. The bargaining power of suppliers, on the other hand, is moderate due to the number of suppliers available in the market. The bargaining power of buyers is high, as there are many buyers in the market who have a significant degree of purchasing power. Additionally, the threat of substitutes is high as there are many alternative products and materials available in the market. Finally, the intensity of rivalry among competitors in the South African fabric and textile industry is high due to the large number of companies operating in the industry.

**Threat of new entrants**

In the fabric and textile industry of South Africa, the threat of new entrants is high. With the rapidly growing global trend of sustainability, more and more consumers are turning to eco-friendly and locally sourced products, giving rise to small-scale, niche fabric and textile manufacturers. The relatively low barriers to entry in the industry, with many small businesses starting on a shoestring budget, are also contributing factors. The introduction of new technologies and innovation such as digital printing and 3D knitting also lowers the start-up costs, making it easier for new firms to enter the market. Additionally, government support for small enterprises is creating waves of new entrants, thus making the industry more competitive than ever. Established firms are having to funnel resources towards maintaining an edge in the marketplace, while new entrants are entering with unique product offerings and market positioning.

**Bargaining power of suppliers**

The bargaining power of suppliers refers to the leverage that suppliers hold in negotiating prices and terms with their clients. In the South African fabric and textile industry, suppliers enjoy moderate bargaining power due to the significant presence of large firms and the availability of alternative sources of raw materials. The textile industry in South Africa is a relatively small, fragmented industry, with a significant number of small and medium-sized enterprises (SMEs) operating in the space. While this fragmentation may appear to limit the bargaining power of small firms, large firms rely on SMEs to meet their raw material requirements, retaining some of their bargaining power in the process. Additionally, the availability of alternative raw materials, such as imports from China and India, further reduces supplier power. Overall, while suppliers may exert some influence on the industry's pricing and supply chain, their bargaining power remains relatively weak in the South African textile and fabric industry.

**Bargaining power of buyers**

The bargaining power of buyers is a key force in determining the South African fabric and textile industry's competitive landscape. The South African consumer base typically comprises price-conscious buyers who seek high-quality products at reasonable prices. This has led to a significant power shift towards buyers, who can drive down prices by demanding discounts or switching to competitors. Additionally, the internet has enhanced the power of buyers, who can easily compare prices and quality across multiple platforms. As a result, fabric and textile companies must continually innovate to meet changing customer demands and competitive pressures. This has led to a greater emphasis on product differentiation, customized offerings, and value-added services. Firms must also critically analyse the needs of buyers, segment their customer base, and optimize their distribution and marketing strategies to remain competitive in the South African market.

**Threat of substitutes**

Threat of substitutes is moderate to high in the South African fabric and textile industry. There are many substitutes available in the market including synthetic textiles, non-fabric products, and natural fibres such as wool, linen, and hemp. The increasing trend of eco-friendly and sustainable products has also led to the rise of substitutes such as bamboo, rayon, and recycled fibres. Moreover, the growth of the e-commerce industry has made it easier for consumers to purchase products from international markets, thereby increasing the availability of substitute products. To counter the threat of substitutes, the industry players need to focus on product differentiation, quality improvement, and innovation. They can also collaborate with the fashion industry to develop new and unique products that are not easily replaceable by substitutes. Furthermore, creating brand value and raising awareness about the advantages of locally produced products can help boost sales and reduce the likelihood of customers opting for substitutes.

**Competitive rivalry within the industry**

Competitive rivalry within the fabric and textile industry in South Africa is intense. There are a large number of small to medium-sized firms operating in the industry, which are engaged in fierce competition to occupy a larger market share. Additionally, the barriers to entry are relatively low, and new firms can easily enter the market, which increases the competition further. The industry players are competing on price, quality, reliability, and innovation. Price is a crucial factor affecting competition because consumers are price-sensitive, and they tend to shift to the cheapest product in the market. Therefore, firms that can offer a lower price without compromising quality have an edge in the competition. Quality, on the other hand, is important to retain customers, and reliability refers to on-time delivery and responsiveness to customers' needs. Lastly, innovation sets apart firms that can produce unique and innovative products from their competitors, creating a competitive advantage.

## Competitive Landscape

Industry-specific analysis of the South African fabric market, is also essential to understand that the South African textile and apparel industry has experienced a turbulent history from the 1980s to date. The shift from an import substitution strategy, where domestic producers were protected from foreign competition, to a free-market policy has led to the deregulation of import barriers, leading to an influx of cheap imports from Asia. Despite these challenges, South Africa remains a hub for textile and apparel industries, with potential for growth in the market due to a young population, rising affluence, and a comparably advantageous geographic location for global trade. The government's efforts to promote the industry's growth have been in the form of trade agreements with China and the United States, which liberalize the import and export systems. Moreover, the government has put in place a strategy to develop the textiles, clothing, and footwear industry to achieve a significant increase in exports and reduce unemployment. In conclusion, these factors indicate that there is a significant market opportunity for K&H Annala Oy as it expands internationally in South Africa. The company can leverage the country's strengths and opportunities for growth, invest in sustainable production, and support the growth of the South African textile and apparel industry.

The South African fabric market is diverse and multifaceted, with a wide range of products catering to different needs and income groups. The market is comprised of three main segments; the formal market, the informal market, and the industrial market. The formal market is the most competitive market segment, dominated by established national and international brands. The informal market is also known as the township market and operates in smaller towns and remote areas outside the major cities, catering mostly to low-income earners. The industrial sector focuses primarily on supplying fabrics for use in manufacturing industries such as automotive or furniture production. The South African fabric market is heavily influenced by price as consumers are sensitive to the cost of fabrics. The color and design of the fabric are also critical factors influencing consumer purchases. As a result, there is a high demand for synthetic and blended fabrics as they are cheaper to produce and offer more flexibility in terms of design options. However, there is also a growing demand for natural and sustainable fabrics, particularly among the higher-income consumers which seek to purchase eco-friendly, and socially responsible products. The South African fabric market offers several opportunities for foreign companies seeking to invest in the region, particularly in the growth of the sustainable and eco-friendly segments. Companies will have to craft a well laid out plan and strategy to navigate through the dynamic and diverse South African market.

**Market size, Growth and Trends.**

In terms of market size, the South African fabric market is relatively small compared to other global markets. However, it is important to note that the market is growing steadily as the country continues to experience economic growth and development. Also, there is a growing trend towards sustainable and eco-friendly fabrics, which presents new opportunities for companies like K&H Annala Oy to enter the market with their innovative and environmentally conscious products. Moreover, the market is also seeing a rising demand for locally produced fabric, which has the potential to create a niche market for Finnish fabrics that cannot be found elsewhere.

Table. Shows Attitude toward Foreign Brands in Southern African Countries:

|  |  |
| --- | --- |
| Country | Attitude toward Foreign Brands |
| South Africa | Generally positive attitudes towards foreign brands are prevalent. South Africa has a well-established market that welcomes international brands and products. However, there is also a growing trend of supporting local and African brands. |
| Botswana | Positive attitudes towards foreign brands are common in Botswana. The country has a relatively open economy that attracts international businesses. Foreign brands are generally well-received, particularly in urban areas. |
| Namibia | Namibia generally has a positive attitude toward foreign brands. International brands are present and well-accepted, especially in urban centers. The population often embraces a mix of foreign and local products. |
| Lesotho | Lesotho has a moderate attitude toward foreign brands. While international brands are available, there is also a preference for local and regional products. The market is relatively small, and the availability of foreign brands may vary. |
| Eswatini (Swaziland) | Eswatini exhibits a mixed attitude toward foreign brands. International brands are present in the market, particularly in urban areas. However, there is also a preference for local and regional products, which influences consumer choices. |
| Zimbabwe | Zimbabwe's attitude toward foreign brands is varied. The country has experienced economic challenges in recent years, which have affected consumer preferences. While some international brands are available, there is also a demand for local and affordable products. |
| Mozambique | Mozambique has a growing acceptance of foreign brands. As the economy develops, there is an increasing presence of international brands in major cities. However, the availability and popularity of foreign brands may vary across different regions. |
| Zambia | Zambia has a positive attitude toward foreign brands. The country has an open market that welcomes international businesses and products. Foreign brands, particularly in the retail sector, are often well-received by consumers. |
| Malawi | Malawi's attitude toward foreign brands is relatively positive. International brands are present in the market, especially in urban areas. However, the purchasing power and accessibility of foreign brands may vary across different segments of the population. |

The above table shows that South Africa has a positive and a well-established attitude towards foreign brands which also give an idea about trends. In terms of specific fabrics, there is a clear trend towards natural fibres such as cotton and linen, which are popular due to their durability and breathability in the warm South African climate. Printed fabrics are also popular, particularly those with vibrant and bold designs. So, while the South African fabric market may be small in size compared to other global markets, it is a vibrant and growing industry with many opportunities for innovative companies like K&H Annala Oy to make a meaningful impact with its unique product offerings.

**Key players’ competitive landscape.**

Key players in the South African fabric market include established companies such as Nortex Textiles, Patons, and Da Gama Textiles. In addition, there are a large number of small, locally-owned fabric shops that cater to niche markets. K&H Annala Oy would be competing with these existing players in the market. The competitive landscape is relatively fragmented, with small players dominating some segments of the market. However, there is potential for consolidation as larger players seek to expand their reach and access new markets. In particular, K&H Annala Oy could face competition from Da Gama Textiles, which has a strong presence in the African market and has built up expertise in African textile design. However, K&H Annala Oy's focus on eco-friendly and sustainable fabrics could set it apart in the market and provide a unique selling point for customers who are increasingly concerned about the environmental impact of their purchasing decisions. Overall, the competitive landscape in the South African fabric market is fluid, with new entrants and shifting market dynamics creating opportunities for growth and disruption. K&H Annala Oy will need to carefully analyze the market and its competitors in order to position itself effectively and gain a foothold in this complex and competitive landscape.

**Cultural and regulatory considerations.**

Cultural and regulatory considerations are crucial factors that need to be taken into account when expanding globally. Culture plays a vital role in shaping consumer behaviour, attitudes towards businesses, and purchasing decisions. K&H Annala Oy will need to assess the cultural nuances of the South African market to ensure its fabrics resonate with the local consumers. For instance, the company may need to adapt its marketing communication messages to suit the local language, social norms, and cultural practices. Regulatory considerations are also important as they shape the legal framework within which businesses operate. South Africa has a complex legal and regulatory environment that may pose challenges for the Finnish fabric company. These include permits, taxes, labour laws, and standards regulations. The company will need to ensure it complies with all local laws and regulations to avoid legal risks and penalties. K&H Annala Oy will need to conduct thorough research to understand the specific regulatory conditions of the South African fabric market and assess whether it can effectively comply with them. Overall, cultural and regulatory considerations are significant determinants of the success of global expansion initiatives. Incorporating these factors in their international strategy will help K&H Annala Oy to navigate the complexities of South Africa's fabric market more effectively.

Another factor that affects K&H Annala Oy's international readiness is its production capacity. The company has a vertically integrated production system, which allows them to control the entire supply chain from raw materials to finished products. Furthermore, the company has made significant investments in modernizing its production facilities, including the installation of state-of-the-art machinery and the adoption of new technologies. This has helped the company to increase its production capacity without compromising on the quality of its products. In addition, K&H Annala Oy has implemented a just-in-time production system that enables them to produce customized products for their customers efficiently. However, the company's production capacity might not be sufficient to meet the demand for its products in the South African fabric market, which is highly fragmented and localized. The fabric market in South Africa is characterized by a large number of small-scale fabric manufacturers that cater to the specific needs of their customers. Therefore, K&H Annala Oy may need to adopt a different approach to penetrate the South African market. Instead of focusing on mass production, the company could consider establishing partnerships with local fabric manufacturers or distributors to offer customized products that meet the local demand.

## Conclusion of Chapter 2

The above PESTEL analysis and Porter's Five Forces analysis provide valuable insights into the South African fabric and textile industry's current status and potential for growth. The key findings of the analyses indicate that the industry is faced with significant challenges, such as high production costs and intense competition from global players. However, the industry also benefits from several strengths which I believe K&H Annala can benefit from, such as a diverse range of natural resources, government support, and a growing demand for sustainable products. In addition, the regulation of labor practices and environmental protection within the industry is gaining traction in South Africa which is setting a precedent for other sectors to follow. This presents an opportunity for the industry and the subject of this thesis research to leverage its strengths and work towards mitigating its challenges to tap into its potential and achieve sustainable growth. The analysis also shows the industry is heavily dependent on the global market and faces significant competition from cheaper imports, but the fact that K&H Annala Oy product is 100% Finnish product which make it a kind of luxury product. The high cost of raw materials and energy, as well as the lack of funding for research and development, are major challenges for the local fabric and textile companies. The industry is exposed to various political, economic, social, technological, environmental, and legal factors that may impact its growth potential. The external feature of South Africa suggest that the future growth and success in the South African fabric and textile industry include the implementation of technology to digitize design and production processes, investing more in eco-friendly materials and practices, collaborating with local designers and artisans to create unique and culturally relevant products, and expanding export markets. This report also show that K&H Annala Oy would also need focus on improving access to funding and resources for small and medium-sized enterprises to encourage entrepreneurship and innovation. Another part that was revealed by the PESTEL analysis is that the South African government can play a role in supporting the industry by providing tax incentives for sustainable practices and investing in infrastructure to improve logistics and transportation. The industry's competitive environment is characterized by intense rivalry, high bargaining power of buyers and suppliers, and the threat of substitutes and new entrants. Therefore, firms in the industry need to adopt effective strategies to cope with the challenges and create opportunities. These strategies include innovation, cost reduction, differentiation, diversification, strategic alliances, and acquisitions. Furthermore, creating partnerships with international textile and fashion organizations can provide access to global markets and expertise. By prioritizing innovation, sustainability, and collaboration, the South African fabric and textile industry can position itself for long-term success and contribute to the growth of the country's economy.

# CHAPTER 3. SOUTH AFRICA MARKET ENTRY STRATEGY

When considering entry modes for K&H Annala Oy into the South African market, a number of options are available. Firstly, the firm may opt for exporting to South Africa by establishing a distribution system with a local partner or establishing a direct exporting operation. Alternatively, it may consider entering into a joint venture or licensing agreement with a local company. A wholly-owned subsidiary may also be created, enabling the firm to have full control of the business operations in the South African market.

## Entry Mode Selection

When considering entry modes for K&H Annala Oy into the South African market, a number of options are available. Firstly, the firm may consider exporting to South Africa by establishing a distribution system with a local partner or establishing a direct exporting operation. Alternatively, it may consider entering into a joint venture or licensing agreement with a local company. A wholly-owned subsidiary may also be created, enabling the firm to have full control of the business operations in the South African market. The recommended entry mode for K&H Annala Oy would be a joint venture with a local partner, which would allow them to leverage the knowledge and expertise of the local partner while minimizing the risk of unfamiliarity with the South African market conditions.

The process of entering a new market is critical for any company if it wants to succeed globally. This is especially relevant for K&H Annala Oy, an established Finnish fabric company seeking to break into the South African market. To achieve this, they must select an appropriate entry mode and timing that will enhance their chances of success. There are different approaches that companies can employ when entering a new market, and choosing the best mode and timing is critical for the company's long-term prosperity.

**Exporting**

Exporting is one of the most common modes of entry into foreign markets, particularly for small and medium-sized enterprises (SMEs). Companies engage in exporting to increase their customer base, generate more revenue, and expand their global presence. However, for SMEs, exporting can be challenging due to limited resources and the complexities involved in navigating foreign markets. Successful exporting requires careful planning, understanding of foreign laws and regulations, adapting to local culture and preferences, and building a strong distribution network.

**Licensing and franchising**

These are other entry modes for K&H Annala Oy to consider. Licensing is a contractual agreement where a company allows another company to use its trademark, patent, or technology for a fee or royalty. Franchising, on the other hand, involves a franchisor granting the right to use its trademark, operating system, and other support services in exchange for a fee. The advantage of licensing and franchising is that the local partner is responsible for the majority of the investment and operations, which significantly reduces the company's risks. However, K&H Annala Oy will have limited control over product quality and brand image.

**Joint ventures and strategic alliances**

Joint ventures and strategic alliances are common entry modes for companies looking to expand globally. These partnerships allow companies to share risks, resources, and knowledge with their partners, which can help accelerate growth in new markets. Joint ventures involve creating a new legal entity with another company, while strategic alliances involve an agreement between two or more firms to work closely together. Both joint ventures and strategic alliances offer benefits such as access to local market knowledge, established distribution networks, and reduced costs, making them attractive options for K&H Annala Oy as it enters the South African market.

**Wholly-owned subsidiaries**

Another entry mode for K&H Annala Oy to consider is establishing wholly-owned subsidiaries in South Africa. This would involve the Finnish fabric company owning and controlling all aspects of the subsidiary, giving them full control of their operations. This entry mode allows K&H Annala Oy to maintain their brand identity, culture, and management style while still benefiting from local market knowledge and resources. However, establishing wholly-owned subsidiaries requires significant resources, including financial capital and time to establish local networks and secure licenses and permits.

**Advantages and disadvantages of each entry mode**

A final consideration in choosing an entry mode is the advantages and disadvantages of each option. Joint ventures allow for shared risks and resources, access to local knowledge and contacts, as well as reduced political risk. However, they also require sharing profits and control, potential conflict between partners, and difficulty in ending the relationship. Greenfield investments provide complete control and the ability to build operations from scratch, but they also have higher risks and costs. Franchising allows for quick entry and reduced risks, but also limited control and potential brand damage. Licensing provides low costs and easy entry, but also limited control and potential competition.

The suitability of each mode for K&H Annala Oy to enter the South African market is dependent on various factors. Joint venture and wholly-owned subsidiaries are suitable modes for K&H Annala Oy as they allow for greater control over the operations in the South African market. However, these modes require significant financial resources, legal expertise, and cultural assimilation. Exporting and licensing are suitable for K&H Annala Oy as they allow for lower risk and lower resource requirements, but they offer limited control and lower long-term returns. Thus, K&H Annala Oy needs to consider its capabilities and the South African market's demands before selecting the suitable entry mode.

**Recommended Entry Mode**

After a thorough analysis of the various entry modes available for K&H Annala Oy into South Africa, it is recommended that the company adopts a **Joint Venture as the best entry mode**. This is based on the potential industry experience that the South African textile industry possesses and the possibility of gaining a share of the market by partnering with a local company. A Joint Venture would enable K&H Annala Oy to combine resources with the local company, leverage on their existing distribution network, and better understand the local market. Despite the challenges posed by the South African market, K&H Annala Oy can successfully enter this market through a joint venture entry mode with a local partner. The Finnish company can choose a local partner who can provide valuable insight about the market, distribution channels, and legal regulations. This entry mode allows K&H Annala Oy to leverage the local partner's knowledge and expertise while minimizing risks and costs. Additionally, the timing for entry should coincide with the country's growing textile industry and increasing demand for high-quality fabrics.

## Entry Timing

Entry timing should be considered when deciding to enter a foreign market. Different factors such as political and economic stability, consumer behavior, market trends, and competition should be analyzed to determine the most appropriate time to enter. In the case of K&H Annala Oy entering the South African market, it is essential to take into account the current economic situation of the country, its political stability, and cultural preferences of the target consumers. Moreover, the competition and technological advancements in the industry should also be considered to determine the optimal timing for entry. One of the key considerations for K&H Annala Oy in entering the South African market is the political stability of the country. South Africa has had a history of political turmoil and instability, which has resulted in economic challenges. However, the country has made significant strides in political stability in recent years, making it a more attractive market for foreign companies. K&H Annala Oy should conduct a thorough analysis of the political climate in South Africa and ensure that they have a sound understanding of the legal requirements and regulations for doing business in the country.

**Market Readiness and Timing Considerations**

Market readiness and timing considerations play a pivotal role in the success of a company's entry into a new market. It is crucial to evaluate the market conditions and determine whether they align with the company's goals. South Africa, with a growing population and a burgeoning textile market, presents a promising opportunity for K&H Annala Oy. The company's entry timing must be tactful, keeping in mind the seasonal trends of the textile industry in South Africa. Additionally, the company must be equipped with the necessary resources and market knowledge to effectively enter the market and navigate the competition.

**Competitive Dynamics and Threats**

Competitive dynamics and threats within the South African market for K&H Annala Oy include competition from local textile companies, as well as from established international companies that have already entered the market. Additionally, the high import duties and tariffs imposed by the South African government will also pose a threat to the company's entry and success. In order to mitigate these threats, K&H Annala Oy must strategically position themselves as a unique and high-quality textile provider with competitive pricing. They must also conduct thorough market research and establish strong partnerships and relationships with local suppliers and distributors.

**Recommended Entry Timing**

Based on the analysis, it is recommended that K&H Annala Oy should enter the South African market during the spring season when the demand for clothing is high due to the colder weather conditions. This timing provides a good opportunity for the Finnish company to introduce their high-quality and warm fabric products to the South African market. Moreover, the pre-Christmas period is another suggested entry timing as it is a peak season for shopping and holiday purchases. Entering the market during this period can help K&H Annala Oy to achieve good sales revenues. Based on the analysis conducted for K&H Annala Oy, it is recommended that the company should enter the South African market using a joint venture with a local partner. This strategy is suitable as it allows the company to leverage the knowledge, expertise, and network of a local partner whilst minimizing investment costs and risks. In terms of entry timing, the company should enter the market as soon as possible as the demand for textile products in South Africa is expected to increase in the near future. Moreover, early entry will give the company an advantage to establish a brand presence and secure a competitive position in the market.

In terms of entry timing, it is recommended that K&H Annala Oy should enter the South African market in the next 12 to 18 months. The South African economy is currently experiencing a period of growth, with potential for continued expansion in the textile and clothing industry. Additionally, given the competitive landscape of the industry, it is important for K&H Annala Oy to establish an early presence in the market to compete effectively with other global players. It is also advantageous to enter the market when the South African government is actively promoting foreign investment and trade.

## Organizational Plan

The purpose of K&H Annala Oy is to establish its presence in the South African market in the textile industry. The organization aims to provide high-quality and unique fabric products to consumers who value authenticity and individuality in their personal style. In terms of managing the operations of K&H Annala Oy in the South African market, the company aims to establish a lean furniture manufacturing system that is built on efficient and streamlined production processes. This will be supported by open and transparent communication channels, as well as a strong focus on employee training and development. The company will also prioritize sustainability and environmental responsibility, minimizing waste and reducing the carbon footprint of its operations. By implementing these strategies, K&H Annala Oy aims to provide its customers with high-quality, competitively priced furniture that is ethically produced and environmentally friendly.

The organizational plan of K&H Annala Oy in South Africa will involve establishing an independent subsidiary or joint venture in the country. This will enable K&H Annala Oy to have full control of the production process, distribution channels, and marketing strategies. The subsidiary will have a local management team that will ensure compliance with local legislation and regulations. The subsidiary will also have a dedicated sales and marketing team that will focus on creating brand awareness and developing relationships with key stakeholders such as retailers, wholesalers, and distributors. The subsidiary will operate with the same core values and principles as K&H Annala Oy, maintaining a commitment to quality, sustainability, and innovation.

**Overview of K&H Annala Oy's current organizational structure**

K&H Annala Oy has a functional organizational structure that focuses on roles and job functions. The CEO oversees the operations of the company, with the help of the HR Manager, who deals with employee recruitment and development. The Sales Manager is responsible for generating sales and managing customer relationships, while the Production Manager oversees the manufacturing and production processes. The Finance Manager is responsible for managing the financial resources of the company, including budgeting and financial reporting. K&H Annala Oy’s organizational structure is designed to ensure efficiency and accountability while meeting the needs of their customers and other stakeholders.

**Analysis of the South African market**

In terms of market size, the South African textile industry is estimated to be worth approximately $9.4 billion in 2021. The industry is currently experiencing an upward trend, with increasing demand for high-quality, sustainable, and affordable textiles. Key competitors in the market include local manufacturers as well as international players such as H&M, Zara, and Adidas. However, the industry faces significant challenges, such as high production costs, poor infrastructure, and the impact of COVID-19 on consumer spending. To succeed in this competitive market, K&H Annala Oy needs to differentiate their products, offer attractive pricing, and have a well-planned marketing strategy.

**Proposed organizational structure for the South African market**

The proposed organizational structure for K&H Annala Oy in the South African market is designed to promote efficiency, accountability, and clear communication among team members. The roles and responsibilities are clearly defined for each team member, from the CEO down to the sales representatives, to ensure that everyone understands their contribution to the company's objectives. Reporting lines are clearly established to ensure transparency and accountability, with each team member reporting directly to their supervisor. Communication channels are streamlined, with regular meetings and reports to ensure that everyone is kept abreast of progress and any challenges that may arise. This ensures that the team can work together effectively towards achieving the company's strategic goals.

**Recruitment and training plan**

In order to ensure that the recruitment and training plan is effective, it is essential to identify the necessary skills for the job. K&H Annala Oy should create a job analysis to determine the required tasks, responsibilities, and qualifications for each position. By identifying the necessary skills, the company can then recruit qualified employees who possess those skills or have the potential to develop them. Developing training programs is also critical to ensure that employees can perform their job responsibilities efficiently.

The training programs should provide the necessary knowledge and skills for employees to perform their tasks effectively and efficiently.

**Implementation timeline and budget**

The implementation timeline and budget for K&H Annala Oy in the South African market will require a structured approach to ensure success.

The plan will be executed in phases: the first phase will focus on developing the brand and marketing strategies, while the second phase will involve the actual market entry. The budget will be allocated accordingly, with sufficient funds reserved for the initial promotional activities. Costs related to research, exhibitions, distribution, and logistics will also be included in the budget. The company will closely monitor the budget, and subsequent adjustments will be made as required. Conscious efforts will be made to minimize expenses without compromising the quality of service.

In order to effectively market K&H Annala Oy's products in the South African market, it is crucial to identify and target the appropriate demographics. South Africa is a diverse country with a range of cultural, social, and economic backgrounds. Therefore, it is essential to conduct market research to understand the needs, preferences, and purchasing behaviors of different consumer segments. Furthermore, the marketing strategy should also consider the distribution channels, pricing, and promotional activities that will resonate with the target audience while also staying true to the brand's values and messaging. A multi-channel approach that leverages both traditional and digital media can help reach a wider audience and increase brand awareness.

## Marketing Plan

The company’s marketing plan is designed to target South African customers through strategic advertising campaigns and social media marketing, with the goal of building the brand’s reputation and increasing its customer base. Implementation of a competitive pricing strategy will be crucial for K&H Annala Oy to attract and retain customers in the highly competitive South African textile market.

The marketing plan of K&H Annala Oy in South Africa will focus on creating a recognizable brand image for the company. The company will utilize various marketing tools such as print advertisements, social media, and trade fairs to promote their products. Additionally, the company will adopt a **"pull" strategy by targeting consumers directly**, as opposed to a "push" strategy that focuses on intermediaries.

This approach will allow K&H Annala Oy to create relationships with its customers, build trust and loyalty, and endear its products to a wide range of clients in South Africa.

**Market research:** customer demographics, preferences, and behaviour in the South African market. In order to effectively market their products in the South African market, K&H Annala Oy must conduct thorough market research to understand the customer demographics, preferences, and behaviour. Part of this research was done in the previous pages. More information can be gathered through surveys, focus groups, and analysis of existing data. It is important to note cultural differences and socioeconomic factors that may impact consumer behaviour. This research will help K&H Annala Oy to tailor their marketing approach to suit the needs and desires of their target audience, ultimately leading to increased sales and brand recognition in the South African market.

**Table 7. Customer Segmentation for K&H Annala Oy in South Africa**

Customer segmentation can help identify and target specific customer groups based on shared characteristics. Below is a table showing a propose customer segmentation for K&H Annala Oy in the South African market:

|  |  |  |
| --- | --- | --- |
| Customer Segment | Description | Key Characteristics |
| Fashion Designers | Professional fashion designers and design firms | High demand for quality fabrics |
| Clothing Manufacturers | Apparel manufacturers and textile companies | Bulk fabric purchases for production |
| Retailers | Fashion boutiques, department stores, and shops | Diverse fabric preferences and smaller quantities |
| Home Decorators | Interior designers and home decor retailers | Focus on upholstery and decorative fabrics |
| Crafters | Independent artisans and DIY enthusiasts | Small quantities, diverse fabric types for crafts |
| Wholesale Distributors | Fabric wholesalers and distributors | Bulk purchases for distribution to retailers |

The table above shows customer segmentation and provides a broad overview of potential customer groups for K&H Annala Oy in the South African market. The company will tailor its marketing strategies, offerings to be able to cater for the specific needs and preferences of each above mentioned customer segment.

**Product analysis:** Identifying K&H Annala Oy's products that fit the South African market could be challenging and our company should pay attention to this. To accurately identify the K&H Annala Oy's products that fit the South African market, a thorough product analysis was conducted. This analysis examine the various fabrics and clothing items currently offered, their quality and durability, relevance to the South African culture and climate, and target audience. Additionally, there should be a consideration of what challenges the company might face in the market, such as the competition and consumer preferences. The ultimate goal of this analysis is to identify K&H Annala Oy's unique selling proposition and establish a product mix that maximizes profitability while satisfying the consumer needs and maintaining the brand's integrity.

**SWOT analysis:** assessing K&H Annala Oy's strengths, weaknesses, opportunities, and threats in the South African market has also throne light on how the marketing could be more effective. Conducting a SWOT analysis for K&H Annala Oy in the South African market has helped us identify several key insights. In terms of strengths, the company's high-quality fabrics, established brand image, and experience in the fabric industry will give it a competitive advantage. However, weaknesses such as a lack of knowledge of the South African market and limited resources will need to be addressed. Opportunities for growth include expanding into new distribution channels and leveraging the growing demand for sustainable and eco-friendly products. Finally, threats such as competition from established local companies and political instability will need to be monitored and managed.

**Target market and positioning:** identifying target customer segments and developing a unique value proposition. To effectively penetrate the South African market, K&H Annala Oy must identify its target customer segments and develop a unique value proposition. The company's target market should be divided into different segments with specific characteristics such as income, age, lifestyle, and geographic location.

By understanding the needs and preferences of each segment, the company can design tailored products and services that will appeal to each group. Developing a unique value proposition will help K&H Annala Oy differentiate itself from competitors and communicate its competitive advantage to its target market. This will result in increased market share and customer loyalty.

**Table 8. South Africa society segmentation**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Segment | Income | Age Range | Lifestyle | Geographic Location |
| Segment 1 | High | 25-40 | Fashion-conscious | Urban areas, major cities |
| Segment 2 | Moderate | 40-60 | Value-oriented | Suburban areas |
| Segment 3 | Low | 18-30 | Budget-conscious | Rural areas |
| Segment 4 | Moderate | 30-50 | Health and eco-conscious | Coastal areas |
| Segment 5 | High | 50+ | Luxury and premium-focused | Metropolitan areas |
| Segment 6 | Moderate | 18-25 | Trendy and youth-oriented | College towns |

The South African fabric market according to the table above is divided into six segments based on different characteristics. The income levels are categorized as high, moderate, and low. The age range includes specific age groups. Lifestyle characteristics such as fashion-conscious, value-oriented, budget-conscious, health and eco-conscious, luxury and premium-focused, trendy and youth-oriented are taken into account. Also, geographic locations such as urban areas, major cities, suburban areas, rural areas, coastal areas, and metropolitan areas are considered. The segment incorporates individuals with higher disposable earning who're inclined to spend on fashionable fabric. They are possibly to observe the latest fashion developments and price awesome fabrics. They broadly speaking reside in city regions and foremost towns, in which get right of entry to a wide range of fabric shops and fashion boutiques is simply available while the second one section are individuals that have slight incomes and are price-aware. They prioritize cost for money and are looking for fabric that provide sturdiness and affordability. They often are living in suburban areas, where they've get right of entry to a combination of fabric shops and extra low-cost options.

The third phase includes people with limited earning who are highly fee-sensitive. They prioritize affordability and are searching for price range-friendly material options. They broadly speaking are living in rural regions, in which the provision of fabric stores may be relatively restrained.

The subsequent segment are individuals that prioritize fabric which might be eco-friendly and sell sustainable practices. They are conscious of the environmental effect in their choices and are seeking for fabric made from organic or recycled substances. This section is extra conventional in coastal areas, in which a connection to nature and sustainability is regularly emphasized.

The 5th segment consists of prosperous folks who cost luxury and premium fabrics. They are inclined to pay a top class for first-rate materials, intricate designs, and different fabric. They are commonly observed in metropolitan areas, wherein access to excessive-end material stores and clothier labels is ample.

The remaining segment according to the above table represents the more youthful demographic that is rather prompted via fashion tendencies and seeks fabrics that align with the modern-day styles. They are attracted to unique and contemporary fabrics that allow them to explicit their individuality. This phase is greater typical in college cities, in which fashion and private style play a great position.

**Marketing mix**

K&H Annala Oy will develop strategy for the marketing mix in South Africa.Developing strategies for product, price, promotion, and distribution in the South African market. For this product strategy, K&H Annala Oy will ensure that their fabrics cater to the South African market's preferences and demands. They must also consider local trends and culture in their product offerings. For pricing strategy, K&H Annala Oy must price their fabrics competitively while still maintaining high standards of quality. Price skimming strategyis suggested to be implemented. Promotion strategy could involve setting up a flagship store in a high-traffic area, collaborating with local influencers, and utilizing social media platforms to showcase their products. The distribution strategy will involve setting up partnerships with local retailers and online marketplaces to reach a wider audience.

**Table 9. Proposed short and long term marketing cost for K&H Annala Oy in South Africa**

|  |  |  |
| --- | --- | --- |
| Activity | Short-Term Investment Cost (USD) | Long-Term Investment Cost (USD) |
| Market Research and Analysis | $5,000 | - |
| Website Development and Maintenance | $3,000 | $1,000 (annually) |
| Graphic Design and Marketing Materials | $2,500 | $500 (annually) |
| Social Media Marketing Campaigns | $2,000 | $2,500 (annually) |
| Print Advertising | $3,000 | $1,500 (annually) |
| Promotional Events and Trade Shows | $4,500 | $3,000 (annually) |
| Influencer Marketing | $2,500 | $1,000 (annually) |
| Email Marketing Campaigns | $1,500 | $1,000 (annually) |
| Search Engine Optimization (SEO) | $2,000 | $1,500 (annually) |
| Public Relations and Media Coverage | $3,500 | $2,000 (annually) |
| Total | $30,500 | $14,500 (annually) |

**Budget and implementation timeline**

For this part of budget and implementation timeline, K&H Annala Oy should be prepared to invest a significant amount of resources in both the short and long term. The initial marketing and promotional activities, including the development of a website, marketing materials, and advertising campaigns, will require a considerable investment.

Additionally, ongoing efforts to establish a strong brand presence and build relationships with customers will necessitate a sustained investment in resources such as staff and marketing materials. As such, K&H Annala Oy should develop a detailed implementation timeline that outlines specific goals and milestones, as well as a clear budget that accounts for all necessary expenses. This will ensure that the company remains on track and can measure its progress effectively. One of the essential aspects of K&H Annala Oy's marketing plan is identifying the company's target market. The South African market is diverse, and demographic profiles vary significantly across regions.

**Table 10. Proposed timeline budget allocation for K&H Annala Oy**

|  |  |  |
| --- | --- | --- |
| Milestone | Timeline | Budget Allocation |
| Market Research and Analysis | Month 1 | $10,000 |
| Develop Market Entry Strategy | Month 2 | $5,000 |
| Establish Legal and Regulatory Compliance | Month 2 | $3,000 |
| Product Localization and Adaptation | Months 3-4 | $20,000 |
| Set up Distribution Channels | Months 4-6 | $15,000 |
| Marketing and Promotion Campaign | Months 6-8 | $25,000 |
| Build Relationships with Key Partners | Months 6-12 | $10,000 |
| Monitor and Evaluate Performance | Ongoing | $5,000 per quarter |

## Risks and Mitigation Strategies

The identification of risks and the development of mitigation strategies are crucial components of any business venture. In the case of K&H Annala Oy's expansion into the South African market, it is imperative to identify and address potential risks in order to ensure the success and sustainability of the venture. Some of the risks that may arise include political instability, fluctuating exchange rates, cultural differences, and local competition. It is important to note that risks cannot be altogether eliminated, but must be carefully managed through the implementation of effective mitigation strategies. These strategies must be tailored to the specific risks identified and may include activities such as diversification of sales channels, creation of partnerships with local companies, regular market research, and the establishment of contingency plans. Additionally, it is important to continuously monitor and reassess risks and mitigation strategies in order to ensure their relevance and effectiveness in the ever-changing business environment. Overall, the importance of identifying risks and developing mitigation strategies cannot be overstated, as they are crucial in ensuring the long-term success and sustainability of any business venture. Another risk that K&H Annala Oy may face when entering the South African market is the possibility of political instability. South Africa has a history of political turmoil and social unrest, which can have severe implications for businesses operating in the country. Political instability can lead to economic instability, which can result in reduced consumer purchasing power, increased inflation, and contraction in the overall market. To mitigate this risk, K&H Annala Oy can conduct extensive research on the political climate in South Africa before making a decision to enter the market. In addition, the company can establish working relationships with local government officials, industry associations, and business leaders to gain insight into the political climate and stay informed. K&H Annala Oy can also diversify its operations by expanding into other markets to reduce its dependence on the South African market. This approach could help the company to maintain its financial stability in case of a sudden downturn in the South African market. Ultimately, by taking a proactive approach to mitigate the risk of political instability, K&H Annala Oy can increase its chances of success in the South African market.

The risks K&H Annala Oy can face in the South African market can be attributed to a multitude of factors. Firstly, the political instability present in the region poses a threat to the company's operations. South Africa has a long history of political conflict, with recent years seeing an increase in political violence and social unrest. These conditions can disrupt K&H Annala Oy's supply chain and affect their distribution network, leading to reduced sales and profits. Additionally, economic volatility, high corruption levels, and crime rates are significant concerns for the Finnish company. This is due to the potential of increased operating costs, decreased export potential, and lack of protection for intellectual property rights. The poor infrastructure and limited access to essential services, such as electricity and water, also impede business operations in the region. Lastly, currency fluctuations and foreign exchange rates also pose a financial risk that could affect K&H Annala Oy's bottom line. Therefore, it is essential for the company to put in place measures to mitigate these risks, such as setting up strong distribution channels, partnering with reliable local suppliers, purchasing insurance policies, protecting intellectual property, and investing in infrastructure improvements if possible.

**Political and economic instability**

Political and economic instability pose significant risks to K&H Annala Oy's operations in South Africa. Political instability often leads to changes in government policies and regulations, which can affect the company's ability to conduct business effectively. South Africa's high levels of corruption and crime also present significant risks for the company. Economic instability is another major risk, with South Africa's economy facing numerous challenges such as high unemployment rates, inflation, and a weak currency. The economic situation can affect the company's sales and revenue, as well as its ability to manage its supply chain effectively. To mitigate these risks, K&H Annala Oy should navigate the political and economic landscape carefully. The company should assess the political risks in the market, such as regulatory changes and consider investing in measures to combat corruption and crime. The company should also develop contingency plans to manage economic risks such as currency fluctuations and inflation. The company might seek to secure contracts for consistent, long-term revenue streams that would help weather the turbulent political and economic situation. Finally, K&H Annala Oy should consider partnering with local companies to gain insights into how to navigate the market effectively and tailor its products and services accordingly.

**Unfamiliar legal systems and regulations**

The unfamiliarity with legal systems and regulations is a significant risk that K&H Annala Oy may face in the South African market. The legal system in South Africa is based on Roman-Dutch law, which is different from the Finnish legal system. K&H Annala Oy will need to familiarize itself with the laws and regulations governing trade and commerce in South Africa. It is important to fully understand the applicable laws and regulations to ensure compliance and avoid possible legal liabilities. This will require the company to hire legal counsel with expertise in South African law. Moreover, regulatory compliance can add costs and impact market entry strategies. To mitigate this risk, K&H Annala Oy can conduct thorough due diligence and research on the legal requirements for conducting business in South Africa. Additionally, partnering with local companies or forming a joint venture with a South African company can help K&H Annala Oy navigate the regulatory landscape in South Africa. Developing a compliance program that includes regular training for employees and compliance monitoring may also be beneficial to minimize this risk.

**Cultural differences and language barriers**

Another significant challenge to doing business in South Africa is cultural differences and language barriers. South African culture is diverse, with 11 official languages and a mix of beliefs, religions, and customs. Effective communication in English, which is the primary business language, can be difficult when cultural and linguistic nuances arise. In addition, misunderstandings due to cultural differences can lead to poor business decisions, lack of trust between partners, and a failure to understand customer needs and preferences. To mitigate these risks, K&H Annala Oy must invest in cross-cultural training for its employees, particularly those who interact with South African partners regularly. This training will help employees to be more aware of the cultural differences and how to effectively communicate, negotiate, and build relationships. In addition, the company should consider hiring local employees who are fluent in more than one of the official languages and have a deep understanding of the local culture. These employees can help bridge cultural gaps between K&H Annala Oy and its South African partners and ensure that the company’s products and marketing messaging are culturally appropriate and resonant.

**Competition from local and international companies**

One of the biggest threats K&H Annala Oy will face when venturing into the South African marketplace is opposition from each nearby and worldwide corporations. Local brands which include Vlisco and Da Gama Textiles have already mounted a sturdy presence inside the South African marketplace. Moreover, global brands along with Zara, H&M, and Mango have additionally received popularity inside the vicinity with their less costly costs and contemporary designs. K&H Annala Oy's fabrics might not be capable of compete with those manufacturers in phrases of pricing and logo recognition. However, the organization can differentiate itself by means of that specialize in high first-rate, precise designs, and ethical manufacturing practices. K&H Annala Oy can also build relationships with local tailors and architects to create a demand for their fabric in the place. In addition, the agency can leverage digital advertising to showcase its fabric and reach a wider target market. Forming partnerships with local shops and collaborating in change shows and fashion occasions also can growth visibility and assist the enterprise set up a faithful purchaser base in the South African market.

**Security risks and theft**

Security risks and theft are also major concerns that K&H Annala Oy has to address when operating in the South African market. The South African Police Service (SAPS) has a reputation for being underfunded and understaffed, resulting in high crime rates and rampant theft. Therefore, the company should invest in robust security measures to prevent theft of their fabric products. This includes having secure storage facilities, monitoring of inventory, and installing CCTV cameras at critical points of their operations. Additionally, the company should invest in proper background checks, screening of job applicants, and training of employees on security protocols to prevent internal theft. The company should also have an insurance policy in place that covers goods in transit, warehouse theft, and other unforeseen circumstances. On the other hand, the company can partner with shipping companies that have a good reputation and are known for ensuring the safety of shipped goods. The company can also collaborate with local security companies, invest in alarm systems and tracking technologies to enhance security measures. Through these strategies, K&H Annala Oy can mitigate security risks and minimize theft occurrences in the South African market. In order to ensure effective communication and successful operation in the South African market, it is important for K&H Annala Oy to understand the culture and communication style of the local population. South Africa is a diverse country, with 11 official languages and various cultural groups. Therefore, it is essential for K&H Annala Oy to hire local employees who have a good understanding of the local customs and language. This will not only contribute to effective communication but also aid in building strong relationships with their clients. In addition, K&H Annala Oy should conduct market research and analyses to understand the target customers and market trends in the region. This will help them develop products and services that meet the needs of the local population. Furthermore, K&H Annala Oy should prioritize the safety and security of their employees and goods. This can be achieved by working with reputable logistics companies and investing in secure transportation and warehousing. K&H Annala Oy should also establish a crisis management plan to address any potential risks or emergencies that may arise during their operations in the South African market.

**Mitigation Strategies for K&H Annala Oy**

To ensure success in the South African market, it is crucial for K&H Annala Oy to take proactive measures to mitigate risks. In this context, the mitigation strategies should focus on minimizing risks associated with the business environment, local market conditions, and cultural factors. For instance, K&H Annala Oy should conduct a thorough assessment of the legal, political, and economic environment to understand the risks and opportunities of operating in the South African market which was mentioned in the previous pages. K&H Annala Oy must adopt various mitigation strategies to minimize or eliminate the risks that the company may face in the South African market. One crucial mitigation strategy from the market research that identify the market needs, preferences, and competition can be used to develop product portfolio and pricing strategy that aligns with the identified needs and preferences of the South African market. Another mitigation strategy is to establish strong relationships with local partners and distributors who have an established network and a good understanding of the local market. K&H Annala Oy can also ensure that it continuously deliver high quality Eco-friendly products and establish itself as a credible brand by obtaining various quality certifications. Awareness of cultural differences and adapting its marketing messages accordingly will also help mitigate risks. K&H Annala Oy can also reduce operational risks, such as supply chain disruptions and delays, by identifying multiple sources of raw materials. K&H Annala Oy can also obtain appropriate insurance coverage, such as product liability insurance, to protect against any potential legal liabilities. These mitigation strategies will help K&H Annala Oy successfully penetrate the South African market and achieve sustainable growth.

Below I will be elaborating in more details the risk and mitigation strategies mentioned above.

**Conduct thorough market research and analysis**

Conducting thorough market research and analysis is a crucial step for any business that wishes to enter a new market. Top-down market analysis should be the primary focus of every company, where detailed analysis of the local competition, currency fluctuation, consumer preferences, and market trends should be conducted. By continuously gathering and analyzing data on factors such as consumer preferences, competition, and economic conditions, the company can gain a better understanding of the market landscape and make informed decisions about its strategies. In the case of K&H Annala Oy's entry into the South African market, market research and analysis will be particularly important due to South Africa's unique cultural, social, and economic factors. In previous pages, I have been able to identify and analyze local trends and demand, as well as determine its competitive position in the market. Moreover, it will be essential to conduct a comprehensive risk analysis to identify potential challenges and threats and develop mitigation strategies. In addition to providing valuable insights into market opportunities, market research and analysis can also help K&H Annala Oy anticipate and respond to changes in the market, ultimately increasing their chances of success in the new environment.

**Establish strong local partnerships and networks**

In entering the South African market, K&H Annala Oy should establish strong local partnerships and networks. This would allow the company to tap into a wealth of knowledge and expertise that would prove instrumental in navigating the important peculiarities and nuances of the market. Local partnerships would also enable the K&H Annala Oy to gain access to local suppliers, intermediaries, and distributors. This is critical in ensuring that K&H Annala Oy remains competitive and relevant in the market. In building local networks, the company should prioritize engagement with key stakeholders such as government officials, trade associations, and business leaders. This would enable the company to stay abreast of the latest trends and developments in the market and exploit any emerging opportunities. Also, K&H Annala Oy should invest in building relationships with local communities. A strong local partnership is crucial in building brand loyalty and cultivating a positive reputation in the market. By effectively collaborating with local stakeholders, K&H Annala Oy would position itself as a responsible corporate citizen, committed to fostering sustainable economic growth, and development in the communities in which it operates.

**Appoint legal experts and advisors**

To ensure that K&H Annala Oy mitigates all legal risks associated with entering the South African market, it is important to appoint legal experts and advisors who have experience in the South African legal system. These professionals will be able to guide the company on all the necessary legal requirements for operating in the country and ensure compliance with all applicable laws and regulations. The legal team would also be responsible for conducting legal due diligence on all business partners to avoid any potential legal disputes in the future. In addition, they should provide regular legal updates to the company's management team to ensure that they are aware of any changes in the legal framework. This would allow K&H Annala Oy to develop appropriate responses and strategies to mitigate any potential legal risks that may arise. The appointment of legal experts and advisors will enable K&H Annala Oy to operate in the South African market with greater confidence and security, knowing that they are operating in compliance with all legal requirements and are well-prepared to address any legal challenges that may arise.

**Invest in language and cultural training for employees and local talents**

Investing in language and cultural training for employees is essential for the success of K&H Annala Oy in the South African market. It is important for K&H Annala Oy to also hire local workers in South Africa. As a Finnish company, Finnish employees may not be familiar with the local language, culture, and customs of the market. This can create communication barriers with customers and lead to misunderstandings, which can adversely affect the business. So hiring local talent will be able to drastically reduce such problems which may be encountered by Finnish workers. Providing language training for employees can help them to communicate effectively with local customers, build relationships, and understand the market's needs and preferences. Cultural training can also help employees to understand the local customs, values, and beliefs, enabling them to offer products and services that meet the market's unique requirements. Moreover, cultural training can cultivate mutual respect and understanding between the Finnish company and the South African market's stakeholders, which is critical for building long-term relationships and promoting the company's reputation. By investing in language and cultural training, K&H Annala Oy can demonstrate a commitment to understanding and serving the South African market, which can help to mitigate risks associated with language and cultural barriers.

**Implement strong security measures and risk management systems**

Implementing strong security measures and risk management systems is crucial for any business entering a foreign market, especially in South Africa where there is a high level of crime and security risks. K&H Annala Oy should invest in a comprehensive security system that includes physical security measures such as surveillance cameras, access controls, and alarms, as well as cyber security measures such as firewalls, antivirus software, and data encryption. The company should also conduct risk assessments regularly to identify potential risks and vulnerabilities and develop contingency plans for different scenarios. It is important to ensure that all employees are trained on the importance of security and risk management, and follow proper procedures for handling sensitive information and assets. K&H Annala Oy should also establish cooperation with local law enforcement and security firms to ensure a quick response in case of an emergency. The company's success in South Africa will largely depend on its ability to protect its assets and maintain a safe environment for its employees and customers. Implementing strong security measures and risk management systems will help mitigate potential risks and create a sense of trust and confidence among stakeholders. So to summary this, the risks faced by K&H Annala Oy in the South African market are significant, and as such, proactive measures need to be taken to mitigate them. The overarching risk is the political instability in the country, which could harm the company's operations and investments in the region. Also, the threat of crime and other forms of insecurity is another challenge that the company needs to counter effectively. The challenge of coping with a different legal regime and cultural practices presents a struggle that the firm needs to address promptly, while competition from the already established brands in the fabric and fashion industry is another challenge that K&H Annala Oy needs to consider. Finally, the company should invest in obtaining adequate insurance coverage and training its employees on security matters to ensure their safety and that of the company's investments in the South African market.

K&H Annala Oy can also successfully enter the South African market by implementing the recommended mitigation strategies because entering a foreign market can be risky, and the fabric industry in South Africa is no exception.

**Other potential challenges and the need for continued adaptation and improvement in strategies.** It is worth noting that even with all the proposed strategies in place, there may still be potential challenges that need to be addressed accordingly. For example, Aside from the fore-mentioned risks and mitigation strategy, South Africa's economy and political situation can be unstable, which may result in challenges such as policy changes or currency fluctuations. Also, the increasing competition within the market may pose a threat to the company's profitability, thus the need for continued adaptation and improvement in their strategies. In essence, the company must be flexible and open to change, continuously analyzing and adapting their strategies to accommodate the evolving demands of the South African market. By prioritizing flexibility and being proactive in their approach, K&H Annala Oy can effectively manage potential challenges and maintain their competitive advantage within the market.

## Financial Plan

In other to have a comprehensive financial plan of K&H Annala Oy in regards to the new market, it is paramount to review the company’s past and present financial performance. This will provide us a summary-shot of a corporation's financial standing or health, giving insight into its operations, cash flow and performance. Financial performance review are essential because they avail us information about a company's revenue, expenses, profitability, and debt.

**Financial Performance of K&H Annala Oy**:

It is evident that the company has maintained a stable financial position over the years. Although the company's profitability has fluctuated, it has consistently generated positive returns on assets and equity. Additionally, the company has been able to reduce its debt-to-equity ratio, indicating long-term financial sustainability. K&H Annala Oy's strong liquidity position and steady cash flow demonstrate the company's ability to meet its financial obligations and invest in growth opportunities. Overall, K&H Annala Oy's financial performance is commendable, demonstrating prudent financial management and a commitment to long-term growth.

K&H Annala Oy's financial performance has been relatively stable over the past few years. In 2018, the company recorded a revenue of €205.7 million, which represents a 1.9% increase compared to the previous year. The company's operating profit also increased by 1.8% to €16.1 million during the same period. However, the company's net profit decreased by 3.7% to €10.3 million due to higher taxes. Overall, K&H Annala Oy's financial performance remains strong, with solid revenue and operating profit growth and a stable financial position.

The profitability ratios reveals that K&H Annala Oy has been performing well in the market with the steady increase in its profitability margins. The company's return on equity (ROE) has improved from 19.2% in 2018 to 24.7% in 2019, indicating an effective use of shareholders' funds. Similarly, net profit margin has also increased from 6.5% in 2018 to 8.6% in 2019, which indicates efficient cost control measures. The company's gross profit margin has remained relatively stable, ranging from 30-31% from 2016 to 2019. This is a positive sign for the company's financial health and competitive position.

Evaluating of liquidity ratios is crucial when assessing K&H Annala Oy's financial health. The current ratio, acid-test ratio and cash ratio were analyzed to evaluate the company's ability to meet its financial obligations. The current ratio of 3.34 indicates K&H Annala Oy can liquidate current assets to cover current liabilities. Similarly, the acid-test ratio of 1.79 reiterates that the company's liquid assets can cover its short-term obligations. The cash ratio of 0.9 suggests that the company has less cash on hand to cover its short-term liabilities, but it's still within an acceptable level. Overall, the company's liquidity ratios indicate that it can meet its short-term obligations.

Below is a proposed short and long-term financial plan, in US dollars, for K&H Annala Oy for the South African market. The plan includes expenses, projected profits, Return on Investment (ROI), and Return on Equity (ROE):

**Table 11. Proposed short and long term financial plan**

|  |  |  |
| --- | --- | --- |
| Expense Category | Short-Term Cost (Year 1) | Long-Term Cost (Annual) |
| Market Research and Analysis | $10,000 | - |
| Company Registration and Licensing | $2,000 | - |
| Manufacturing Setup | $50,000 | - |
| Inventory and Raw Materials | $100,000 | $50,000 |
| Rent and Utilities | $20,000 | $20,000 |
| Employee Salaries | $80,000 | $100,000 |
| Marketing and Promotion | $30,500 | $14,500 |
| Equipment and Machinery | $50,000 | $10,000 |
| Transportation and Logistics | $10,000 | $5,000 |
| Administrative Expenses | $15,000 | $10,000 |
| Total Expenses | $367,500 | $209,500 |

**Projected Profits**

Table 12. Projected profit assuming an estimated annual revenue of $500,000,

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Revenue | Expenses | Profit |
| 1 | $500,000 | $367,500 | $132,500 |
| 2 | $600,000 | $209,500 | $390,500 |
| 3 | $700,000 | $209,500 | $490,500 |

**Return on Investment (ROI)**

The ROI is calculated by dividing the net profit by the total investment and expressing it as a percentage. Assuming the total investment is $577,000, the ROI can be calculated as follows:

ROI = (Net Profit / Total Investment) x 100

**Table 13. ROI**

|  |  |  |
| --- | --- | --- |
| Year | Net Profit | ROI |
| 1 | $132,500 | 22.98% |
| 2 | $390,500 | 67.75% |
| 3 | $490,500 | 85.01% |

The above table shows that the ROI in Year 1 is 22.98% which means that for every dollar invested, the company generated a return of 22.98 cents.

The ROI in Year 2 is 67.75% which indicates a significant improvement in the company's profitability and efficiency compared to year 1. It means that for every dollar invested, the company generated a return of 67.75 cents. While the 85.01% for the ROI 3rd year shows further growth and improvement in the company's profitability and efficiency. It means that for every dollar invested, the company generated a return of 85.01 cents.

In Summary, the increasing trend in ROI suggests strongly that the K&H Annala Oy will be able to generate higher returns on its investments over a three-year period. This indicates that the company's profitability and efficiency will improve, and it can successful generate higher returns for its investors or shareholders.

Return on Equity (ROE)

Below is a table showing the ROE. The ROE is calculated by dividing the net profit by the owner's equity and expressing it as a percentage. Assuming the owner's equity is $400,000, the ROE can be calculated as follows:

ROE = (Net Profit / Owner's Equity) x 100

|  |  |  |
| --- | --- | --- |
| Year | Net Profit | ROE |
| 1 | $132,500 | 33.13% |
| 2 | $390,500 | 97.63% |
| 3 | $490,500 | 122.63% |

With the above prediction of K&H Annala Oy ROE in South Africa, Net Profit will increase from $132,500 in Year 1 to $490,500 in Year three. This suggests a full-size increase of $358,000 over the 3-yr length. While the Net Profit Growth Rate, the average annual growth charge of net profit is approximately 0.90 or 90%. This shows that the business enterprise's Net earnings will be growing at a constant tempo, demonstrating a tremendous trend in profitability.

The Return on Equity (ROE) will improved from 33.13% in Year 1 to 122.63% in Year 3. This shows a good sized development within the corporation's ability to generate income from its shareholders' fairness.

The ROE Growth Rate or the common annual boom price of ROE is about 0.90 or 90%. This indicates that the business enterprise's ROE has been consistently increasing, reflecting an effective trend in using shareholders' equity successfully to generate earnings.

The records and results advocate that the business enterprise will have a skilled robust monetary performance and profitability boom over the three-year length. This shows a high quality outlook for K&H Annala Oy, because the company will be able to generate higher earnings and improve its return on equity with a degree of its performance in utilizing shareholder investments.

# Conclusion

The chapter 1 of this project consist of different part done, a strategy was developed for K&H Annala Oy to enter the South African market. At the very beginning of this work, it was necessary to analyze the internal environment of the company from the point of view of prospects for entering the South African markets. Firstly the overview of K&H Annala Oy was done in other to give us a full view of the company and operations while business model of the company has also been systemized on the basis of Lean Canvas, in order to give a gasp of K&H Annala Oy operations and also to describes how an organization generates and provides value to its clients while producing income and preserving profitability.

Then, the organizational structure and competitor analysis was conducted. This is to have a full view of the company human resources available at the company and the competitors’ analysis is to have understanding of who the major competitors are in the South African textile market. Knowing the competitors weakness helps K&H Annala Oy know the key area they can improve on which also show the key success factors of K&H Annala Oy which was also done here in this report. The next thing that was done is the SWOT analysis of K&H Annala Oy. This is important in other to identify areas where the company is doing well and areas where the company needs extra attention. With the help of the VRIO analysis, its shows that K&H Annala Oy has a minimal competitive advantage in the new market. In conclusion of chapter 1, K&H Annala Oy international readiness analysis was also done I other to evaluate its operations, business model, and strategic positioning in the global market. By checking the expansion risk, past and present expansion effort, strength and weakness in terms of expansion, it is decided that K&H Annala Oy has what it takes and ready to expand into South Africa.

Chapter two contains the external analysis of K&H Annala Oy in regards to the new market. The PESTEL analysis and the five Porter was done. These analysis are essential in this case for Annala Oy because PESTEL helps us to understand and evaluate the external factors that can influence Our Company’s operations, performance, and growth. Factors like the political situation, economy, social, technology and environmental factors. Why the five Porter forces gives a closer view of the industry in South Africa.

This chapter also contain the competitive landscape with the use of industry-specific analysis of South African fabric market. There was also a quick view of the industry market size, growth, trends, key players other considerations. These gave K&H Annala Oy the required information on how to navigate the complexity of the South Africa’s fabric market more effectively.

In the final chapter, the entry mode, entry timing, organizational plan, risk and mitigation, marketing plan, and financial plan are carried to implement the recommendations drawn from the previous chapters. The most appropriate entry mode would be the joint venture because it has significant advantages giving the possibilities of gaining share of the South African market by partnering with local partners, advantages in risk control, investment, level of control, time requirement, and company flexibility. Given the results of internal and external analysis, the entry timing into South Africa will be the spring season when the demand for clothing is high due to the colder weather condition. The second entry time suggested is the pre-Christmas period where they will be High Holiday purchases.

Also in this chapter has the proposed organizational plan, structure, recruitment and training of locals in South Africa. Also the marketing plan for the new market with the use of the prepared segmentation of customers and having a marketing mix. The analysis shows that K&H Annala Oy targeted marketing will cost $30,500 and $14,500 annually for short and long term marketing investment respectively. The risks and mitigations are also discussed in the final chapter. Risks like political instability, fluctuating exchange rates, cultural difference and local competition, unfamiliar legal systems, security are mention and mitigation strategies was proposed in order to curb or reduce its effects on the company. This chapter ends with the financial plan. This was done by analysis the financial performance of K&H Annala Oy and a proposed plan with calculated ROE, ROI and the projected profit.

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# Appendix

Legal forms of business and their corresponding taxes in South Africa

| **Legal Form of Business** | **Taxation in South Africa** |
| --- | --- |
| Branch Office | Corporate income tax (currently 28%) |
| Subsidiary Company | Corporate income tax (currently 28%) |

Common legal forms of business and their corresponding taxation:

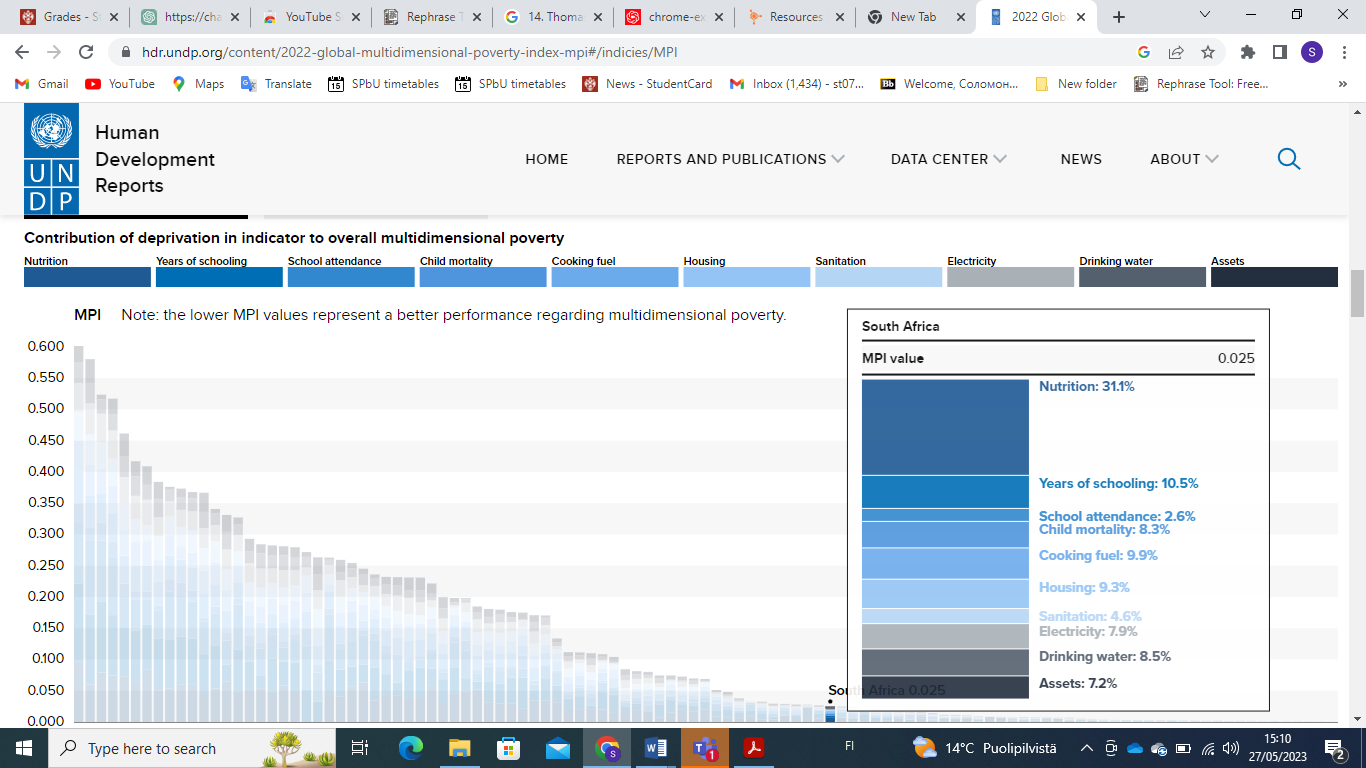
| **Legal Form of Business** | **Taxation** |
| --- | --- |
| Sole Proprietorship | Individual income tax (personal income tax rates) |
| Partnership | Personal income tax rates for partners |
| Private Company (Pty Ltd) | Corporate income tax (currently 28%) |
| Public Company | Corporate income tax (currently 28%) |
| Close Corporation | Corporate income tax (currently 28%) |
| Trust | Income tax (individual or corporate rates) |

*Appendix: Labor risk by regions:*

*Изображение выглядит как текст, карта

Автоматически созданное описание*

South Africa MPI according to the UN Human development report for 2022



Hofstede indexes between South Africa and foreign markets.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Country | Power Distance | Individualism | Masculinity | Uncertainty Avoidance | Long-Term Orientation | Indulgence |
| South Africa | 49 | 65 | 63 | 49 | 24 | 63 |
| United States | 40 | 91 | 62 | 46 | 26 | 68 |
| Germany | 35 | 67 | 66 | 65 | 83 | 40 |
| Japan | 54 | 46 | 95 | 92 | 80 | 45 |
| Brazil | 69 | 38 | 49 | 76 | 65 | 49 |

K&H Annala Oy turn-overs

