

Achieving Competitive Advantage through Operations Strategy: A Case in Gobi Cashmere

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ABSTRACT

This study demonstrates that how Gobi cashmere obtains a competitive advantage. Competitive advantage is all about how your organization differs itself from your competitor. Operation strategy is the main method to gain competitive strategy. In this paper, we will study about Gobi cashmere, which is the largest cashmere manufacturer in Mongolia and one of the five largest in the world. In the other words, the goal of this paper is to understand how Gobi cashmere can use operations strategy to gain competitive advantage.

KEYWORDS: competitive advantage, cashmere, Gobi cashmere, operations strategy

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1. INTRODUCTION

The goal of the organization is to reduce costs and increase revenues. Operation management design methods by which inputs are converted into the output that is most beneficial to the organization. Operations strategy defines plans for using the specifically designed method to support its long-term competitive strategy. Competitive advantage is all about how your organization is being different from your competitor. In other words, competitive advantage determines what you will do differently or better than the competition to achieve your goal. So operation strategy is the main method to gain competitive strategy. This is why we study this topic. Companies can gain a competitive advantage in many ways, be it cost leadership, catering to niche markets. Companies need to make themselves respond quickly to the change in the needs of customers. Moreover they also need to adapt to new product and process development and new technologies. This report focuses on how companies such as Gobi cashmere can use operations strategy to gain competitive advantage. Also Gobi cashmere is one of the biggest and powerful companies in Mongolia's cashmere market. They have branches worldwide such as Berlin, Tokyo, Hamburg, and Moscow. The reason of studying Gobi cashmere's operation strategy helps us to understand environment of cashmere market of Mongolia.

2. CASHMERE INDUSTRY

2.1. WORLD CASHMERE INDUSTRY

The world cashmere market is expected to reach US\$3,112 billion in 2022, annual growth is 3.86% per year between 2017 and 2022. China, Iran, Mongolia, and Pakistan have produced the best quality cashmere in the world.

China

China produced 15,000 tons and exported around 2,000 tons cashmere in 2018, which means Cashmere production of China estimated 48% of all cashmere produced in the world. From first half of 2018, China exported 1,230 tons of cashmere. It means China's cashmere production increased by 1.8% compared to last year. Also, the Chinese government issued strict environmental protection rules which are the reason for a decreasing number of goats. Another effect on the prices was the increasing demand for lamb meat also decreased the numbers of goats and this also reduced cashmere production. The production of cashmere and goats in China slightly decreased. Based on lower goat numbers cashmere production in 2018 went down which lead to an increase in prices compared to 2017. [1]

Iran

2018 started with a stable domestic currency and prices for cashmere were steady. Soon after the new season started, domestic currency lost up to 80% of its value and in

accordance, prices rose very sharply. Once the currency gained some of its value back in October of 2018, prices dropped as well. During this period it is estimated that more than 60% of Iranian cashmere was bought by Chinese traders directly or through their Iranian and Afghan agents. In recent months prices for meat have risen sharply and the government is importing a lot of meat as well. If the meat supply is not sufficient for the country's demand, herders will be tempted to sell goats for meat because the surge for meat price is bigger than for cashmere prices. In this case, cashmere production will decrease in quantity while prices will naturally increase. [1]

2.1.1. MONGOLIAN CASHMERE INDUSTRY

The agriculture sector is the main factor of the Mongolian economy. In 2017, agriculture accounted for 18% of Mongolia's gross domestic product and employed 30% of the country's workforce. Agricultural products, accounting for 8% of total exports in terms of value in 2017, are the second-largest export item after mineral products. One-third of Mongolia's population lives in rural areas and their livelihoods are highly dependent on animal husbandry, with 78% of rural households owning livestock. Raw materials and semi-processed goods accounted for over 76% of Mongolia's agricultural exports in 2017.

Mongolia's climate is suitable for cashmere goats, which means the country has a natural competitive advantage in cashmere production. Mongolia is the second-largest producer of cashmere in the world with about 40% of world production, compared to China's 48% and lesser percentages for Iran, Afghanistan, South Africa, the United States, and Australia. Cashmere is one of Mongolia's major agricultural commodities and the main source of livelihood for Mongolian herders. Despite this high level of raw cashmere production, only 10% of raw cashmere is fully processed domestically. [2] Since the 1970s the Mongolian tableland has been producing the great majority of the world's cashmere. Mongolia and Inner Mongolia of China are the main competitors in the global cashmere market.

The objectives of the Government of Mongolia for the cashmere industry are to develop the cashmere industry so that it makes a significant contribution both to economic growth and to poverty alleviation. To achieve these twin objectives it assists the development of the herders whose goats supply the raw cashmere and the downstream processing industry that adds value to the raw cashmere before export. For herders the government of Mongolia offers free education for their children, virtually no taxes (only a small per head tax, which is often partly evaded), free provision of water wells, free veterinarian services, and fodder at subsidized prices. [3]

Cashmere production companies face to two difficulties:

1. The high cost of the working capital
2. The high demand of raw cashmere in Mongolia

The Government of Mongolia has prioritized the development of the cashmere industry. The government's National Production Program 2016-2020 aims to increase the share of value-added products in the national GDP and boost the production of goods for export. The program also addresses the supply chain development of raw materials, including cashmere. In February 2018, the government

renewed its commitment to support the cashmere industry by launching a 4-year Cashmere Program that will support domestic production of cashmere end products and technological innovation in the industry. This program will continue financial support to cashmere producers as well, partly through concessional loans for raw cashmere procurement. The government's goal in supporting the cashmere industry is to increase export income and create new jobs.

2.2. THEORY OF COMPETITIVE ADVANTAGES

Competitive advantage is the leverage that a business has over its competitors. This can be gained by offering clients better and greater value. Target markets recognize these unique products or services. This is the reason behind brand loyalty, or why customers prefer one particular product or service over another. [4] According to M. Porter, there are two basic types of competitive advantage, which are cost advantage and differentiation advantage.

A. COMPETING THROUGH COST-

Porter argued that a company could achieve superior performance by producing similar quality products or services but at lower costs. In this case, the company sells products at the same price as competitors but reaps higher profit margins because of lower production costs. The company that tries to achieve cost advantages pursuing a cost leadership strategy. Higher profit margins lead to further price reductions, more investments in process innovation and ultimately greater value for customers. [5]

B. COMPETING THROUGH DIFFERENTIATES-

Differentiation advantage is achieved by offering unique products and services and charging a premium price for that. Differentiation strategy is used in this situation and the company positions itself more on branding, advertising, design, quality and new product development rather than efficiency, outsourcing or process innovation. Customers are willing to pay a higher price only for unique features and the best quality. A company with a differentiation strategy can charge a premium price. That means it usually has a higher profit margin. [5]

If the company works successfully in the market, its product or service supposed to offer value at a reasonable price and good quality. If the company can deliver products or services, which is different, unique, and based on their customers' needs and desires, they will powerful competitor in the market.

3. FINDINGS

3.1. ACHIEVING COMPETITIVE ADVANTAGE THROUGH OPERATION STRATEGY: GOBI CASHMERE

Gobi is the largest cashmere production company in Mongolia. The Company has four factories: primary processing, spinning, knitting, and weaving. The company can produce 1100 tons of raw cashmere, 30 tons of woven cashmere and 210 tons of combed cashmere per annum. [6] the Gobi manages its entire value chain, from sourcing raw cashmere directly from herders to processing and manufacturing cashmere products at its primary and secondary processing facilities in Ulaanbaatar. Gobi designs, manufactures, and sells its own branded products domestically through its domestic branches and internationally through its international branches, franchise

stores, and online shop. Most of Gobi Corporation branch stores located in Zaisan, where businessmen, politicians, and the main street of Ulaanbaatar (the capital city of Mongolia). Gobi is segmenting high-value customers.

The increase in primary processing and storage capacity will allow the Gobi to procure more raw cashmere from herders. During the raw cashmere production season (March–June of each year), Gobi deploys its procurement team across Mongolia to inspect and purchase raw cashmere directly from herders. Gobi also purchases raw cashmere at its factory from intermediaries. About 60% of Gobi's raw cashmere procurement is from its procurement team and 40% is received at its factory from intermediaries. Gobi plans to increase the share of raw cashmere procurement from its procurement team and direct procurement from herders (to at least 180 tons from 650 herders by 2022) to gain stronger control over its raw cashmere quality. Gobi also provides basic extension services to certain herders in the form of provision of goat blankets and cashmere-collecting sacks. Additionally, as the Gobi intends to locate its new primary processing facility outside of Ulaanbaatar, Gobi will directly contribute to the local economy by employing staff from the local community and increasing procurement of raw cashmere from the herders.

The majority (68%) of Gobi customers are based outside of Mongolia. While 60% of Gobi's sales are domestic, almost half of domestic sales are to foreign tourists, and 40% of Gobi's sales are exported. In addition to its 10 retail stores in Mongolia, Gobi has 50 franchise stores and 5 branch stores operating in 34 cities across 13 countries. Gobi also produces finished goods for 211 companies from 32 countries in accordance with the companies' design specifications. Gobi's export sales from its international branch stores and online channels are a relatively new development: its first international branch store opened in Berlin in November 2016 and its online store started in February 2017. As Gobi's midterm strategy is to expand its international sales, it will give priority to marketing and selling its own-branded products abroad through its international branches, franchise stores, and online channel. Coats, scarves, throws, and blankets constitute the Company's most popular offerings. To expand its product offerings and embrace a more environmentally friendly image, Gobi introduced 20 brands and collections, including Organic Mongolian

Cashmere, Yama Cashmere, Gobi-Mazaalai Collection, Basic Collection, Baby Camel Wool and Summer Light Cashmere. The management seeks to increase sales exports share in coming years through active marketing and a higher-end product mix. [6]

4. CONCLUSION

The goal of this report is to understand how Gobi cashmere can use operations strategy to gain competitive advantage. In the cashmere industry, raw material's supply is very important. Due to the seasonality of cashmere wool harvesting, the company's year-long supply must be purchased all at once. Gobi deploys its procurement team across Mongolia to inspect and purchase raw cashmere directly from herders. Gobi also purchases raw cashmere at its factory from intermediaries. The company believes that this is the only way to afford a sustainable supply of high-quality Mongolian cashmere. Sustainable supply is the main factor that reduces the cost of cashmere products. Gobi has invested in the new product such as eco-friendly products like Organic Cashmere and Gobi-Mazaalai Collection, Basic Collection, Baby Camel Wool and Summer Light Cashmere. To stay competitive in the global market, eco-friendly collections will differ the Gobi from its competitors.

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