Gul Ahmed Textile Mills (Pvt.) Ltd. - Home Textile Division – Strategic Choices and Alternatives

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\textbf{ARTICLE INFO}

\textit{JEL Classification:}
M31

\textbf{Keywords:}
Marketing
Strategy
Gul Ahmed Textile Mills
Strategic Choices
ANSOFF Matrix
BCG Matrix

\textbf{ABSTRACT}

The Gul Ahmed Group began trading in textiles in the early 20th century. In 1953, the group decided to enter the field of manufacturing under the name Gul Ahmed Textile Mills Limited, and was incorporated as a privately limited company. Gul Ahmed Textile Mills Limited is a publicly-held enterprise providing a wide range of textile products primarily in Pakistan and having a very large export base. It was listed on the Karachi Stock Exchange in 1972. Since then, the company has made rapid progress and is currently one of the leading composite textile houses in the world. More than 50 years since its inception, the name Gul Ahmed is still globally synonymous with quality, innovation & reliability. The Group today has grown into a conglomerate and includes Gul Ahmed Textile Mills, Gul Ahmed Energy and Habib Metropolitan Bank. More recently, a chain of retail outlets has been founded under the name "Ideas by Gul Ahmed". The mill is presently a composite unit with an installed capacity of 130,000 spindles, 250 wide width air jet looms, 90 Sulzers, 297 conventional looms, and a state-of-the-art processing and finishing unit. Gul Ahmed has its own captive power plant comprising of gas engines, gas & steam turbines, and backup diesel engines. This case briefly deals with the complexities of the textile business in Pakistan and provides an opportunity to apply strategic marketing concepts in this case.

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Journal of Marketing Management and Consumer Behavior publishes Case Studies to make the research easier to the public at no charge for supporting a greater knowledge exchange.

Journal of Marketing Management and Consumer Behavior (ISSN-Canada: 2371-3615)
Introduction

The Gul Ahmed Group began trading in textiles in the early 20th century. In 1953, the group decided to enter the field of manufacturing under the name Gul Ahmed Textile Mills Limited, and was incorporated as a privately limited company. Gul Ahmed Textile Mills Limited is a publicly-held enterprise providing a wide range of textile products primarily in Pakistan and having a very large export base. It was listed on the Karachi Stock Exchange in 1972. Since then, the company has made rapid progress and is currently one of the leading composite textile houses in the world. More than 50 years since its inception, the name Gul Ahmed is still globally synonymous with quality, innovation & reliability.

The Group today has grown into a conglomerate and includes Gul Ahmed Textile Mills, Gul Ahmed Energy and Habib Metropolitan Bank. More recently, a chain of retail outlets has been founded under the name "Ideas by Gul Ahmed". The mill is presently a composite unit with an installed capacity of 130,000 spindles, 250 wide width air jet looms, 90 Sulzers, 297 conventional looms, and a state-of-the-art processing and finishing unit. Gul Ahmed has its own captive power plant comprising of gas engines, gas & steam turbines, and backup diesel engines. Believing in playing its role in protecting the environment, Gul Ahmed has also set up a waste water treatment plant to treat 100% of its effluent, bringing it to NEQS levels.

Textile Sector of Pakistan

Pakistan is the 8th largest exporter of textile products in Asia. This sector contributes 9.5% to the GDP and provides employment to about 15 million people or roughly 30% of the 49 million workforce of the country. (See Exhibit 7). Pakistan is the 4th largest producer of cotton with the third largest spinning capacity in Asia after China and India, and contributes 5% to the global spinning capacity. At present, there are 1,221 ginning units, 442 spinning units, 124 large spinning units and 425 small units which produce textile products. The annual volume of total world textile trade is $18 trillion which is growing at 2.5%. But even with so many advantages Pakistan’s share is less than one per cent. Pakistan gets about $10.2 billion of its $12.5 billion textile export revenue from 20 countries. However, it accounts for merely 5.7% of the total imports of these 20 countries.
The textile sector finally seems to be heading towards consolidation and seems ripe for mergers and acquisitions activity. It all started with the energy crisis. Textile in Pakistan has been through several crises before, but the energy crisis seems to have been a completely different ballgame altogether. Many firms have begun to shut down completely, unable to afford to continue operating with the higher cost base, and not having enough scale to absorb it within their margins or pass it on to their customers.

So the consolidation has begun through need: many of the family-owned textile businesses – which had long resisted the economic logic of consolidation – have finally had to give in and sell their factories because they can no longer afford to keep them running. A typical case is Ehsan Yousaf Textile Mills in Faisalabad, which was forced to shut down. It has been bought out by Tauseef Enterprises, a bigger rival that made the smart decision of geographic diversification: it opened operations in Bangladesh before most of its Pakistani competitors.

Nonetheless, the number of firms in Pakistan that are likely to be up for sale is high, probably in the hundreds, if not thousands. And their buyers are often not raising any financing or looking for underwriting, given the smaller amounts involved. Some of the more established investment banks may not be interested in such transactions. But younger buccaneers, who can now get a license for corporate finance advisory much more easily, may well find a lot of business in textile M&A.

A second factor helping increase the potential volume of textile mergers and acquisitions is cultural. There was a time when Pakistani factory-owning families loathed to even consider the idea of selling off their business, seeing it as a matter of shame. In recent years, however, it is becoming more socially acceptable, especially since so many businesses closed off their textile factories and invested the proceeds in more profitable businesses.

The Crescent Group, for instance, discovered that the land that one of their factories was built on in Faisalabad would deliver a far higher rate of return as a real estate development than as a sugar mill. Virtually all major textile-owning families in Punjab have made forays into the real estate business.

And the third factor helping the consolidation process is the fact that retail is becoming an increasingly important part of the textile business. In decades past, export was the be-all, end-all of textile companies. Gul Ahmed was the market leader in exporting home textiles to
Middle East, Europe and the United States. After the imposition of anti-dumping duties, the company is focusing its home textile products more on the local market.

**Gul Ahmed Textiles - Business**

The company engages in the manufacture, marketing and distribution of a wide variety of textile products that include home textiles (bed linen, curtains, towels, kitchen and bath accessories), yarn, woven fabrics such as lawn, chiffon, twills, drills, satins, sheeting and voiles, ready-made garments for men, women and children, and fashion accessories like shoes and handbags. It is Pakistan’s leading exporter of home textiles, including bed linen, curtains, and fabric. It also manufactures lawn fabric for the domestic market. It has begun to produce value-added materials such as apparel and accessories for both men and women under the label ideas.

The manufacturing wing is an essential component in Gul Ahmed's operations. The manufacturing cycle, which includes spinning, weaving, processing, designing and stitching, results in an end product that is tailored to the most stringent customer requirements.

The company primarily sells its products to consumers in Pakistan, United Kingdom, Germany, United States, China, Netherlands and United Arab Emirates. As of June 30, 2010, Gul Ahmed has four printing units, two spinning units, one yarn mercerizing and dyeing unit, one wet processing unit, one weaving unit and 28 retail outlets that include home textiles, fashion and accessories. The company has two subsidiaries: Gul Ahmed International Limited FZC in UAE, and GTM (Europe) Limited located in UK. Gul Ahmed is headquartered in Karachi, Pakistan.

‘Ideas’ is a flagship store by Gul Ahmed and is a growing retail venture. Considering the growing trend towards the retail industry in Pakistan, as well as the increase in cotton prices and the need to focus more on value-added products, the company decided to diversify into the country's retail sector in 2003. Ideas offers a range of home textiles and furnishings for the bedroom, kitchen and bathroom, as well as men's and women's apparel. It also provides in-house monogramming, embroidery and tailor-made services. It not only provides fashion at great value, but also caters to various customer needs by offering a diverse product mix. This leads to a complete and enjoyable retail experience. As a result of this, the chain has expanded to 40 stores across Pakistan since its inception in 2003.
Vision

Setting trends globally in the textile industry. Responsibly delivering products and services to our partners.

Mission

To deliver value to our partners through innovative technology and teamwork. Fulfilling our social and environmental responsibilities.

Management

Management of the group is professionally qualified and broadly experienced. The directors have held top positions in various textile bodies export committees and have also assisted the Government of Pakistan in some of the major trade talks with EC and USA authorities.

Financial Overview

A leading contributor in terms of export revenue, Gul Ahmed textiles has managed to continuously improve its performance although the trend was sluggish over the last two years. Sales in absolute terms have increased 13 percent over the same period last year with the company placing a lot of focus on availing opportunities within the local market as opposed to foreign exports. While the decline in export sales volume were offset by the hiking demand for the company's products in the local markets, the margins whittled down due to inflationary pressure on prices of inputs. Coming mainly off the back of improved margins, growing sales of low value-added yarn and high value added garments, bedding and suiting locally, the firm managed to improve its EPS, which went up to Rs.1.87 at the half year mark. (See Exhibit 10)

Operational Overview

Already part of a sector where major differences between international and local commodity prices and exchange rate risks can make or break the game, Gul Ahmed has been further pressurised by the energy situation at home during the last few quarters which are putting a burden on margins. To mitigate delivery risks, the firm has arranged a flexible delivery schedule with some of its oldest customers. However the company also has around 15 percent
furnace oil power generation capacity which it is further looking to expand. Additionally, the option to avail electricity supply from KESC has also been under discussion.

Like the local scenario, while demand for the company's product is rising on the international market, so is the competition it faces, particularly from the Bengali textile mills which are in the process of hijacking many European customers who historically have favoured Pakistani produce.

Having a duty advantage of 9.6 percent in Europe and a whopping 18 percent in Canada, Bengali exporters are currently cherry picking orders, leaving company's the likes of Gul Ahmed to post losses for the first time in years. Additionally, a decline in export sales also saw a built up of excess stocks for the firm which was a victim of legacy stocks within its supply chain. These have only now begun to finally clear up after global textile activity has finally started to show some improvement.

**Future Outlook**

The slashback in interest rates opens a window of opportunity for the export giant which will also reap benefit from the improvement seen in export prices recently. Pakistan's total textile export which went up by nearly nine percent year-on-year during the first half of FY13- is on the whole also set to benefit from the Autonomous Trade Preference scheme which will offer the country's textile duty-free access to European markets. If and when the country gets access to the GSP+ status, the company will regain the edge it has lost to some of its international competitors.

Moreover, diversification also remains a key point for the firm which has been focusing on venturing into production and manufacturing of niche products to fan out its risk. Shoes, bags, ready-made garments for women, children and men, bath accessories and bed linen have been a major focus for the firm which has also been expanding its retail footprint across the country.

**Home Textiles**

Home linen consists of items such as bath linen, bed linen and kitchen linen. USA is the world's largest market for home linen imports. The EU follows behind with the second
biggest share of world imports. The major home linen exporting countries are namely China, India, Pakistan, Turkey and Bangladesh. *(See Exhibit 11 for Pakistan)*

Textile Made-Up Sector: Being value added segment, this comprises different sub groups namely A) Hosiery & Knitwear, B) Readymade Garments including Fashion Apparels, C) Towels D) Tents & Canvas E) Bed Wear, and F) Cotton Bags. *(See Exhibit 3)*

A) Hosiery & Knitwear Industry: There are about 12,000 knitting machines spread all over the country. Besides locally manufactured machinery, liberal import of machinery under different modes is also being made for the development of exports. B) Readymade Garment Industry: This segment is distributed in small, medium and large scale units. The organized part of this segment is developing because of establishment of new large units. This industry, providing highest value addition in textile chain, enjoys the duty free import of machinery and income tax exemption. C) Towel Industry: There are about 7,500 towel looms in the country in both organized and unorganized sector. This segment is *highly dependent on export outlets* due to limited demand in the local market. The existing towels manufacturing factories are required to be geared up to produce higher value towels. D) Tents & Canvas: The production capacity of this segment is more than 100 million sq. meters. As Pakistan is the cheapest source of supply of tents and canvas, 60% of its production is exported while the rest is consumed locally by armed forces and food department. *(See Exhibit 8)*

**Heimtextil**

Heimtextil is a show where both buyers and Pakistani suppliers are cautiously negotiating and doing business but for short term only due to the uncertain cotton prices. The platform of Heimtextil has been instrumental in development of the home textile sector in Pakistan. Gul Ahmed Home Textiles has always featured prominently here. The exhibitors are able to market their products without any quotas and restrictions. This helps them to establish a solid base of home textile industry in Pakistan. Heimtextil has gained even more importance for Pakistan with time. Around 210 manufacturers of home textiles from Pakistan participated at Heimtextil 2011. During last 10 years, this participation has increased remarkably making Pakistan the fourth largest exhibiting country at Heimtextil after China, India and Germany. The exhibition area has also increased manifold for many of the participating Pakistani companies over the years.
Gul Ahmed Home Textile

Gul Ahmed is one of the largest home textile manufacturing companies in Pakistan. Since its inception in 1953, the company has been a trend-setter in the Pakistani textile industry and has serviced a diverse range of customers across the globe.

Gul-Ahmed is a completely vertical textile mill comprising of state-of-the-art spinning, weaving, yarn-dyeing, piece-dyeing, printing (pigment and reactive on rotary as well as flatbed), stitching, embroidery and quilting facilities. The vertical structure gives Gul Ahmed much better control over the quality of its products as compared to other mills.

Apart from the state of the art production facilities, Gul Ahmed is also equipped with the latest effluent treatment plant, caustic recovery, steam recovery and waste heat recovery plants. This makes Gul Ahmed one of the greenest and most socially responsible textile mills in the region.

Gul-Ahmed's product range is quite diverse, and includes sheets, comforters, multi needle quilts/duvets, decorative pillows, window hangings, table & Kitchen Linen etc. Gul Ahmed also has the capability to do foam-back/black-out curtains and lining, as well as acrylic coating and flocking.

Gul Ahmed Textiles (Pvt) Limited was honored at the coveted 8th Pakistan France Business Alliance (PFBA) Trade Performance Awards for being the highest volume exporter and for securing the first position in the Home Textile Category for 2010-2011 of home textiles. This annual ceremony is an important landmark in the corporate calendar as it recognizes and honors the leading Pakistani manufacturers and exporters to France.

Product Portfolio
Home Textile Unit products:

- Bed linen – premium (high thread count, silk), budget, basic
- Bed basics – quilt, pillow
- Kitchen textile – leather, screen printed, casual, yarn dyed
- Bath accessories - towels
- Home accessories – potpourri, vases, cushions
Market Analysis

Gul Ahmed has segmented the market on multiple bases. It geographically caters to local demand, US, European Union countries and China mainly. Demographically, it caters to urban households belonging to upper and upper middle income strata. It looks into the psychographics of the market and caters to the luxury oriented lifestyle and self-expressive personalities. Behaviorally, it exhibits benefit segmentation as it provides quality and exclusive designs and situational/occasional segmentation is present as it targets occasions like eid, Christmas, weddings etc.

Shifts in Paradigm in Home Textiles

The past few years, however, have probably been the worst ever for the textile sector in Pakistan, home textiles in particular. Other than the power shortage for the most part the sector has failed to use the decades of protectionism to its advantage and invest in value addition, in innovation and in improving technology to ensure that they move higher in the value-added chain.

China is the second largest buyer of Pakistani textiles, chiefly cotton yarn and fabric, unlike US which mostly imports value added textiles. Chinese textile mills are turning to neighbors such as India and Pakistan to buy cotton yarn. China is expected to issue extra cotton import quotas to textile mills in April after purchases for the government’s stockpile cut domestic supplies.

Pakistan already exports about 70% of its total yarn exports to China and Hong Kong. So if demand jumps 50% or more, the impact on Pakistan yarn exports can be huge, which coupled with falling local demand could be a lifeline for a large sector of our industry. (See Exhibit 6)

SWOT Analysis - Gul Ahmed

Strengths

Gul Ahmed enjoys a strong brand equity and reputation as the market leader. It has consistently increased its organic sales. It has been awarded leading exporter to France in home textiles and always represents Pakistan as a prominent exporter in trade fairs and exhibitions. The company is vertically integrated has a strong presence across the value chain.
as it has bargaining power over the suppliers. Also it has a large production capacity and is a large composite unit to beat reliance on any other. To overcome the erratic power supply it has set up its own power generation unit. Gul Ahmed has a huge diversified portfolio in home textiles, fashion, apparel and accessories. It has strong operating performance viz-a-viz peers.

It has heavily invested in automation and R&D to make home textile products according to international requirements and standards. The company produces superlative quality of cotton yarn and exports it along with other value added products. Gul Ahmed is technologically sophisticated and innovative in its designs. Its influential strength has saved its production facilities from facing gas curtailment on which its power generation system depends. Future shortages however, will affect its production schedule. Therefore, for saving on cost of production, the plant is running on continuous production basis to fulfill demand. It has a strong distribution system, using selective distribution and its Ideas retail outlets for showcasing its home textile made ups, clothing and other accessories.

Weaknesses

Gul Ahmed is a sprawling textile conglomerate but is not without its fair share of weaknesses. It has exhibited over reliance on the processing segment. While the company is financially strong it has not maintained its liquidity position very well. The company has a typical management hierarchy that is characteristic of a ‘seth’ culture.

Opportunities

A positive outlook on textile industry is stated in Pakistan’s Textile Policy 2009-2014 favoring growth of the home textile sector. The global economy is recovering after the recession following 2008-9. The demand for cotton yarn and fabric from China is growing exponentially industry seems prepared for consolidation with the phasing out of small producers due to electricity shortfall and rising input cost differential. The firm can also enter into joint ventures with foreign apparel makers or home textile retailers / wholesalers.

Threats

Anti-dumping duties and EU tariffs drove down demand for Gul Ahmed home textile products abroad. Also, the conditional GSP (Generalized System of Preferences) status levies too many prerequisites, meeting which is challenging. The recent grant of MFN Status to
India has put the local industry at risk as India and Bangladesh are already outperforming Pakistani producers. High interest rates discourage investment in Pakistan. The foreign exchange risks, electricity shortfall, high electricity tariffs and strong direct competitors like Al Karam, Nishat and Lucky Textile being the major competitors pose major threats to Gul Ahmed. The volatile raw material prices (See Exhibit 1) leading to high input cost differential make it difficult for the company to compete on price. The company has been forced to make up for the decline in sales volumes in the retail margins. Political instability has also shaken investor confidence in the home textile sector which is both capital and labor intensive.

**Shift in Paradigm for Textile Industry**

Textile and its imports have been falling gradually over the past few years. There was slight growth in the overall textile sector but major subsectors such as cotton yarn declined by 11%, cotton cloth by 22%, knitwear by 38% bed wear by 40% and towels by 20%. Overall the sector faced a decline of 30-35% in its export. The pie shows Pakistan’s textile exports split and the heavy share of the first three products.

There are several reasons behind this falling demand. Although Pakistan enjoyed the monopoly in the textile sector for quite some time in the region, the competition caught up fast and with better strategies. Competitors such as China, India and Bangladesh have all invested in R&D unlike the Pakistani family run textile businesses. Also they know the importance of branding, recently the leaders of Bangladesh textile industry persuaded global giants to higher prices such as Wal-Mart and JC Penny and they agreed. The demand for value added items which fetch the maximum amount to the export basket has been declining as the producers are unable to keep up with the changing global trends. Competitors have also been focusing on skill development of its employees and better working conditions.

Although the textile sector witnessed some growth, there are some alarming changing trends in the sector as the investors are more interested in services instead of manufacturing, according to the SBP 1QFY 12 report. (See Exhibits 4 and 5) Smaller self-funded investors are concentrating more on retail part of the home textile industry rather than manufacturing. These are mostly buying agents or middle men who are working for bigger manufactures from Europe and America. They simply buy the finished goods, keep their profit and sell the merchandise to European markets. Although this does add to the overall GDP however, the growth rate and profit margins for the local manufacturers have decreased exceptionally.
Another plus point for the manufacturers is that they don’t have to pay any tariff to do business in the EU. Another place where countries such as China and Bangladesh beat Pakistan is at their lower labor costs. Countries such as China and India have made much progress in the research and development sector compared to their Pakistani neighbors. The result therefore, is better more cost effective industrialized units. Due to all the above contributing factors the cost of doing business in Pakistan has increased immensely.

The global economic crisis which hit the euro zone the hardest lowered the demand for cotton in the international markets and higher inventory levels from the previous year also forced the cotton prices to hit such a low. Due to the economic downturn in the European Union countries Pakistan’s home textile sector faced a massive downtick. The textile exports went from US$11.1 billion last year down to US$10.1 billion in the MFY12, which means a decrease of 10% YOY basis.

A general belief is that the home textile sector has been able to reap great benefits from depreciation of the Pak rupee against dollar. As this means higher gross profit margins because of the dollar-rupee parity; however it is also noteworthy that other textile exporting countries such as Bangladesh and India faced much steeper depreciation. Bangladeshi Taka depreciated by 11% and Indian rupee by 10%, whereas the Pakistani rupee depreciated by 4.1% YOY against the dollar. So on the export front the home textiles face much tougher competition.

The European Union had approved to give trade concessions to Pakistan for two years back in 2010. However, to this day the implementation has been hitting delays; because earlier other textile importing countries such as India and Brazil raised a few objections whose waiver was mandatory. Now home textile producing countries of the EU, such as Greece, Portugal and Italy are facing worst economic crises which means businesses are closing down and unemployment is on the rise. They are not allowing Pakistan to avail this tariff discount package. As per the concession scheme Pakistan is allowed tariff free export of 75 products to EU for the next three years. As 30% of the home textile sector’s total exports are to the EU countries, if these concessions are implemented it is great news for the country’s textile manufacturers plus the country’s foreign exchange. EU has passed another law which gives developing countries such as Pakistan, Ukraine and Philippines opportunity to export to EU countries for no custom tariffs. However, there is a big ‘if’ attached to it, before the textile
manufacturers take advantage of this opportunity they must implement 27 international conventions of human and labor rights, work environment and good governance. Pakistan would need to meet the conditions to become eligible for GSP (generalized system of preferences) plus status, which allows manufacturers in developing countries to gain duty-free access to European Union. (See Exhibit 9)

**Textile Policy 2009-14**

The government announced the first ever five-year Textile Policy 2009-2014 that aims at taking the country's textile exports from the existing US $10 billion to $25 billion by the year 2015.

However, the policy has not been implemented in spirit. The subsidies, exemptions from load shedding, duty drawbacks, zero rebates on machinery imports and Technology Up gradation Fund (TUF) were only good on paper.

**Competitor Profile**

- **Al Karam Towel Industries**

Al Karam Towel Industries has reason to claim it is second to none in the industry. As an Award Winning and Internationally Certified manufacturer of quality towels, Al Karam offers affordable luxury. With decades of experience, and expansion based on "Organic Growth", AlKaram with its vertically integrated mill feeding to an output level of 5000 containers/annum, is confident in supplying in a quality conscious environment, able to leverage raw material costs, a generous and diverse inventory of products. Al Karam Towel ensures success to its buying partners, in optimizing their sourcing costs and attaining the product quality they deserve. Once orders are shipped, the customer service team ensures delivery and satisfaction. Its product portfolio in home textiles comprises of:

- Hand, Bath, and Shower towels
- Kitchen and Dish towels
- Tea Towels
- Hooded Towels
- Embroidered Towel Sets
- Wash Cloths
- Golf Towels
- Personalized Towels
- Monogrammed Towels
• **Nishat Mills Ltd.**

Nishat is a renowned business leader and one of the most successful and diversified leading groups in Pakistan. Its exceptional services include unbeaten textile manufacturing, a winning cement industry and trust worthy banking. Its extraordinary performance is the resulting combination of excellent HR, financial body and supreme dedication along with the incomparable focus on quality, productivity and reliability. Nishat Mills Limited, the flagship company of Nishat group is the *largest composite textile set up* in Pakistan, with an annual turnover of US $550 million and an ISO 9001 certification.

Nishat is capable of producing approximately 9 million meters of processed fabric per month. The product range includes bedding ensembles, window treatments, kitchen articles and living room textiles with high and low thread count fabrics. The company has a dynamic research team taking advantage of the vertically integrated set up and keeps on creating new product ideas in home textile and fashion collections.

• **Nishat Chunian Ltd.**

Being a vertically integrated unit, *Nishat Chunian Limited* is one of the largest textile companies of Pakistan with monthly production of 8.5 million lbs. of yarn, 3 million yards of fabric, and 4 million yards of dyeing and state-of-the-art printing capacity with complementing stitching output. Nishat Chunian Limited has had key placements at leading global retailers with a diverse product range that includes bed linen, top-of-bed products and window curtains. *Nishat Chunian Limited* is known for its dedicated Research & Development efforts to bring out ground-breaking product ideas in the market. Over the years, it has developed various exclusive products for different markets utilizing a wide variety of finishes, fibers and blends. In addition to fabric processing, it also specializes in diverse and unique sewing techniques.

• **Lucky Tex Pakistan (Pvt) Ltd.**

One of Pakistan's leading home textile producers, Lucky Tex has state-of-the-art technology and equipment that permits it to supply the world's leading retailers or wholesalers directly. Its growth is based upon a total commitment towards developing close customer relationships
built upon reliable performance that both retailers and wholesalers need to grow their business.

- **Chenab One Textiles**

Chenab One is a Punjab based home text producer that is a direct competitor. It is catering to the local market through its retail outlets by the name of Chen One. It is now also a leading producer of premium bed linen, curtains, bath accessories, kitchen accessories, decoration accessories, men, women and children’s apparel. The company is also largely an exporter to the same countries as Gul Ahmed.

- **Afroze Textiles**

Afroze Textiles is a prominent home textile exporter manufacturing bed linen, made ups, towels, bath curtains and bath accessories for the private labels for Wal Mart and other large US and European retailers. Such orders have been outsourced to the company which also sells its home textiles in the local industry through its retail outlet Bed & Bath. It has recently entered the fashion lawn fabric sector with its HiraLari brand. This is also a private limited company with a similar managerial culture and set up.

- **Al Abid Textile Mills**

Al-Abid has developed into a powerful competitor in the field of Home Textiles since the company was incorporated in 1968. Al-Abid continuously strives to develop market leading merchandise focusing on its strengths, working with state of the art plant & machinery, developing value added products for customers with a "passionate attitude for excellence".

Its core business has been the design and manufacturing of Home Textiles. The company has positioned itself using state-of-the art technology to support its dyeing & printing capabilities which make it well-equipped to tailor itself to customers' requirements. It has allocated specific capacity to work on specialized bedding, using skilled human resource skills to work on embellished products. This set up really provides the edge in order to maintain high quality which ascertains the high value of the final product.
• **Integrated Textiles**

Integrated Textiles, caters to outsourcing needs of global partners in home textiles in Pakistan and Bangladesh. Its strength and synergy lies in design, sourcing & manufacturing. It produces fine woven and knitted greige, white, dyed, printed & denim fabrics. It has a system of global sourcing and manufacturing, merchandizing, quality assurance & online order tracking. It offers rich bedding, bath, windows, garments, hospitality & lifestyle.

• **Kam International**

Kam International is a vertically integrated textile mill possessing processes like ginning, spinning, weaving, processing (rotary, flat bed, continuous dyeing) and stitching located in the port city Karachi. With current annual production capacity of 45 Million meters and strong financial acumen, Kam continues to prove itself as a low cost, large scale, quality production mill providing turnkey solutions to its clients in US and other regions.

• **United Towel Exporters**

United Towel Exporters is a family-owned company that specializes in the manufacturing and export of terry towels, bathrobes, bed linen and work wear. Established in 1982 with just two looms, it now runs more than 800 terry towels and flat linen looms. UTE is a one-stop shop for its customers as it offers a diverse range of items catering to the Home, Food and Beverage Industries, Hospitality and Healthcare. UTE continuously strives to update its facilities to meet changing customer demands. The UTE complex stretches over an area of 600,000 sqft in the industrial zone, located in Karachi. It caters to prestigious retailers, laundries, hotels and institutions in more than 20 countries around the globe.

![Cotton Price Graph](source:Cotlook Ltd. via the IMF)

**Figure 1**
Figure 2

Figure 3- Source: Business Recorder

Figure 4
Figure 5

Figure 6- Source: Express Tribune

Figure 7- Source: Pakistan Economy Watch
Figure 8- Source: Business Recorder

Figure 9- Source: Express Tribune
### Exhibit 10

#### Profit & Loss

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<td>Sales</td>
<td>25,064</td>
<td>25,435</td>
<td>19,689</td>
<td>13,906</td>
<td>11,726</td>
<td>9,848</td>
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<tr>
<td>Gross profit</td>
<td>3,544</td>
<td>4,627</td>
<td>3,173</td>
<td>2,359</td>
<td>1,775</td>
<td>1,475</td>
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<td>Operating profit</td>
<td>1,374</td>
<td>2,635</td>
<td>1,653</td>
<td>1,209</td>
<td>936</td>
<td>745</td>
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<td>Profit before tax</td>
<td>(1)</td>
<td>1,537</td>
<td>708</td>
<td>170</td>
<td>202</td>
<td>262</td>
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<tr>
<td>Profit/(loss) after tax</td>
<td>(240)</td>
<td>1,196</td>
<td>478</td>
<td>80</td>
<td>103</td>
<td>164</td>
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<td>Cash dividend</td>
<td>-</td>
<td>-</td>
<td>79</td>
<td>-</td>
<td>55</td>
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<tr>
<td>Bonus share</td>
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<td>635</td>
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#### Cash Flow Statement

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<tr>
<td>Operating activities</td>
<td>3,497</td>
<td>(2,617)</td>
<td>454</td>
</tr>
<tr>
<td>Investing activities</td>
<td>(920)</td>
<td>(1,250)</td>
<td>(711)</td>
</tr>
<tr>
<td>Financing activities</td>
<td>(70)</td>
<td>(148)</td>
<td>(170)</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>(7,169)</td>
<td>(9,676)</td>
<td>(5,660)</td>
</tr>
</tbody>
</table>

#### Textile Sector Exports

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Units</th>
<th>FY12 Quantity</th>
<th>Value USD (000)</th>
<th>FY11 Quantity</th>
<th>Value USD (000)</th>
<th>FY10 Quantity</th>
<th>Value USD (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw Cotton</td>
<td>000 kgs</td>
<td>264,076</td>
<td>470,133</td>
<td>168,210</td>
<td>383,151</td>
<td>177,947</td>
<td>215,954</td>
</tr>
<tr>
<td>Cotton Yarn</td>
<td>000 kgs</td>
<td>572,047</td>
<td>1,794,575</td>
<td>536,128</td>
<td>2,201,405</td>
<td>625,418</td>
<td>1,433,094</td>
</tr>
<tr>
<td>Cotton Cloth</td>
<td>000 sqmtrs</td>
<td>1,971,757</td>
<td>2,454,701</td>
<td>2,623,195</td>
<td>1,787,659</td>
<td>1,787,659</td>
<td>1,800,055</td>
</tr>
<tr>
<td>Yarn Other than Cotton Yarn</td>
<td>000 kgs</td>
<td>12,214</td>
<td>41,520</td>
<td>47,632</td>
<td>13,646</td>
<td>13,646</td>
<td>35,693</td>
</tr>
<tr>
<td>Knitwear</td>
<td>000 doz</td>
<td>97,520</td>
<td>1,974,228</td>
<td>2,305,554</td>
<td>108,669</td>
<td>108,669</td>
<td>1,764,959</td>
</tr>
<tr>
<td>Bed Wear</td>
<td>000 kgs</td>
<td>248,912</td>
<td>1,748,327</td>
<td>2,088,898</td>
<td>324,025</td>
<td>324,025</td>
<td>1,744,250</td>
</tr>
<tr>
<td>Towel</td>
<td>000 kgs</td>
<td>143,922</td>
<td>684,183</td>
<td>762,308</td>
<td>192,490</td>
<td>192,490</td>
<td>668,239</td>
</tr>
<tr>
<td>Tents, Canvas, Tarpulin</td>
<td>000 kgs</td>
<td>28,593</td>
<td>98,826</td>
<td>46,954</td>
<td>20,741</td>
<td>20,741</td>
<td>61,527</td>
</tr>
<tr>
<td>Readymade Garments</td>
<td>000 doz</td>
<td>25,437</td>
<td>1,634,593</td>
<td>1,773,661</td>
<td>27,661</td>
<td>27,661</td>
<td>1,269,338</td>
</tr>
<tr>
<td>Art, Silk, Synthetic Textile</td>
<td>000 SqMtrs</td>
<td>389,084</td>
<td>542,116</td>
<td>607,806</td>
<td>435,185</td>
<td>435,185</td>
<td>445,807</td>
</tr>
<tr>
<td>Made up Articles</td>
<td></td>
<td>584,772</td>
<td>N.A.</td>
<td>624,955</td>
<td></td>
<td>537,237</td>
<td></td>
</tr>
<tr>
<td>Other Textile Material</td>
<td></td>
<td>328,738</td>
<td>322,592</td>
<td>245,216</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>12,356,712</td>
<td></td>
<td>13,788,111</td>
<td>10,221,369</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
TEACHING NOTE

Case Synopsis

The Gul Ahmed Group began trading in textiles in the early 20th century. In 1953, the group decided to enter the field of manufacturing under the name Gul Ahmed Textile Mills Limited, and was incorporated as a privately limited company. Gul Ahmed Textile Mills Limited is a publicly-held enterprise providing a wide range of textile products primarily in Pakistan and having a very large export base. It was listed on the Karachi Stock Exchange in 1972. Since then, the company has made rapid progress and is currently one of the leading composite textile houses in the world. More than 50 years since its inception, the name Gul Ahmed is still globally synonymous with quality, innovation & reliability. The Group today has grown into a conglomerate and includes Gul Ahmed Textile Mills, Gul Ahmed Energy and Habib Metropolitan Bank. More recently, a chain of retail outlets has been founded under the name "Ideas by Gul Ahmed". The mill is presently a composite unit with an installed capacity of 130,000 spindles, 250 wide width air jet looms, 90 Sulzers, 297 conventional looms, and a state-of-the-art processing and finishing unit. Gul Ahmed has its own captive power plant comprising of gas engines, gas & steam turbines, and backup diesel engines. This case briefly deals with the complexities of the textile business in Pakistan and provides an opportunity to apply strategic marketing concepts in this case.

Case Objectives

1. To illustrate the concepts of .
2. To illustrate application of strategic marketing in highly competitive market.
3. To appraise the importance of conventional marketing tactics.
4. To appraise marketing skills needed in launching a new brand extension.

Target Audience

This case was written for undergraduate students taking course(s) in any one of the subject area namely Principles of Marketing, Marketing Management, and/or Strategic Marketing. However, it may be used for discussion in Brand Management, Integrated Marketing Communications courses as it highlights various concepts of marketing communication as well.
Case Methodology

A case study is a common research methodology in social science and it may be descriptive or explanatory in nature. It is based on an in-depth investigation of a single individual, group, or event (Yin, 2009). All facts and figures have been taken from the official website of the company otherwise all other secondary sources are mentioned and appropriately acknowledged. Principally this case is a teaching case and written solely for class room discussion and academic purposes only. It doesn’t intend to illustrate either effective or ineffective handling of managerial situation. The contribution of Abdul Aziz, Director Finance and Zaki Bashir, Chief Operating Officer at Gul Ahmed and Sanaullah Khan, Team Leader (Faysal Bank) is gratefully acknowledged.

This one case strategy has been proved fruitful in describing fundamental concepts through case study design in many other cases (Anjam & Siddiqui, 2013; Fahim & Siddiqui, 2013; Husain & Siddiqui, 2013; Mangi & Siddiqui, 2013; Salman & Siddiqui, 2013; Siddiqui & Anjam 2013a; Siddiqui & Anjam 2013b; Siddiqui & Anjam 2013c; Siddiqui & Fahim 2013). More recently the marketing concepts in Pakistan have been illustrated through a single case study design in services sector (Siddiqui & Fahim 2014; Sibghatullah, Siddiqui & Siddiqui, 2016, Latif, Sibghatullah, & Siddiqui, 2016).

Suggested Class Plan – 75 minute

How do you analyze the strategy of Gul Ahmed?

The company does not have a single dog in its portfolio. Bath and decoration accessories are question marks, fabric, curtain and bed linen are stars while cotton yarn is a cash cow. Therefore, integrative and intensive strategies are suggested.

The company has strong financial position, even though it does not maintain a high level of liquidity. Its market share position, high product quality, technological knowhow and control over suppliers and distributors arising out of its vertically integrated set up, give Gul Ahmed sustainable competitive advantage. The environmental stability suffers due to high inflation, demand variability and business risks involved. The home textile industry is not going very strong at present due to decline in growth and profit potential. Hence, the company needs to
act aggressively. It can use integrative and intensive strategies – horizontal integration, market penetration or market development.

Even though Gul Ahmed has a strong competitive position in the home textile sector, the industry is exhibiting a slow market growth. For an industry to classify as having a rapid market growth rate, its annual growth in sales ought to exceed 5 percent. Thus, the market development possibly through joint venture / partnering may be suggested.

What strategic alternatives can be exercised successfully in this case?
1) **Horizontal integration** may be considered first. Gul Ahmed may acquire a smaller producer like Integrated Textile which is also catering to outsourcing needs of global partners in Pakistan and especially Bangladesh, a country which is a significant threat. The company has the resources to manage an expanded organization and will gain an edge over its competitors. However, the fate of other Pakistani home textile producers does seem to be much different. And the acquisition will not deliver any monopolistic characteristics. In fact, the cost of acquisition may reduce the differential competitive advantage gained from the added economies of scale.

2) **Market penetration** as an option may be deliberated. The current local market is still unsaturated and there is still potential to increase the usage rate of present local customers significantly. But Gul Ahmed is a premium producer while the buying power of consumers is eroding with no relief being provided in subsequent budgets. Thus, relying heavily on the local market to make up for its lost international sales may not be advisable. Market penetration is appropriate when shares of major competitors are declining while the total industry sales are increasing. This is not the case with Pakistani home textile sector.

3) **Market Development** may be seen as the most appropriate strategy for Gul Ahmed’s home textile division. It could be achieved through joint venture or partnering agreements. New reliable and good quality channels of distribution are available in China. This is an untapped and unsaturated market where a large bulk of the company’s cotton yarn may be exported to begin the relationship. China is already increasingly importing cotton yarn from Pakistan, Bangladesh and India. Market development could be successfully implemented as Gul Ahmed is already good at what it does, has the production capacity to meet the demand and has the requisite resources to manage expanded operations. Since the basic industry in which Gul Ahmed is competing is rapidly becoming global in scope ([See Exhibit 2](#)) the company should consider developing a market for its products in China. Waiting for settlement on EU tariffs and acquiring GSP would only waste time and resources. The company may consider horizontal integration after successfully developing market in China and other Asian countries including Russia to benefit from the resulting excess production capacity even further.

4) Also Joint venture / partnering is an increasingly popular technique as compared to mergers and acquisitions.
References


Competition with India to wipe out Pakistan’s home textile, garments industry

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