

Baa, Baa, Black Sheep

Have You Any Wool?

~

Developing the RBV
Through a Study of the
New Zealand Merino Clothing Industry

by

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“Keep your eyes open to your mercies.

The man who forgets to be thankful has fallen asleep in life.”

– Robert Louis Stevenson

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Abstract

This thesis explores how the traditional approaches to researching the Resource-Based View (RBV) do not fully address the heterogeneity within the participants of the research. Traditional approaches assume similar levels of knowledge, prioritisation, and value (awareness) are held across the participants. This thesis proposes that this similarity may not exist for every industry.

Focused on the New Zealand merino clothing industry, this research employed two studies to determine the key characteristics and perceptions of the main players in the industry. Initially an industry profile is formed from secondary data sources, which covers the 30 years since the inception of the New Zealand merino clothing industry. This profile forms the basis for the interview sample and provides comparison for interview findings.

Through the use of open-ended questions and a semi-structured interview process this thesis carried out interviews with the CEOs of thirteen New Zealand based merino clothing firms from throughout New Zealand. These interviews offered the participants the opportunity to express their perspectives on the resources they deem to be most important. The outcomes of these interviews are surprising; with the results questioning more assumptions of RBV research than just the similarity of awareness.

Drawing together the analysis of the industry profile and the findings of the interviews, these two studies highlight a number of key findings. Most significantly, it is apparent that the majority of the interviewees do not perceive themselves as competing, though the industry profile indicates that the industry has a high level of competitive rivalry. Additionally, the firms do not appear to be differentiating themselves from one another, with few unique approaches utilised by the interviewees in regards to product, design, and business practice. Lastly, this thesis illustrates that these differences in perception between the industry profile analysis and the interview findings could be due to the ambition and future perspectives of the CEOs.

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Chapter 1: Introduction

They say a joke is not funny if you have to explain it (Carr & Greeves, 2006), however the title for this thesis, for all its apparent flippancy, is not a joke. There is more to it than some flight of fancy to quote a childhood nursery rhyme.

This thesis is above all else, a reflection and hopefully a development on the Resource-Based View (RBV). In this school of thought, a firm is made up of a bundle of resources. Depending on how a firm develops and accumulates these resources in comparison to competitors, these resources may give the firm a competitive advantage. In this way, competitive advantage can be seen as having a bundle of resources that your competitors do not have, or using a bundle of resources in way that your competitors cannot. In the line of ‘Baa, Baa, Black Sheep’ quoted in the title, the customer is coming directly to the black sheep for wool. Why is that?

‘Black sheep’ is often used as a metaphor to describe someone who is acting outside of the ordinary, doing something different to everybody else. Alternatively, to give it its literal meaning, it can be used to describe the colour of the sheep. In this case having black coloured wool differentiates the sheep from the normal white sheep. For either of these definitions of a ‘black sheep’, it is clear that either the black sheep has a resource that no other sheep has, or it is doing something different to all the other sheep. The next line in the nursery rhyme indicates that this is working out quite well for the black sheep – “yes sir, yes sir, three bags full.” Thus, it would appear the black sheep has some form of competitive advantage.

In this thesis, the New Zealand merino clothing industry – the inspiration for the wool-based metaphor – is used to develop areas in regards to methodologies used to study the RBV. Contemporary approaches to RBV research have seen the use of either cross-industry studies, overt focus on purely high performing firms, or a mixture of the two. These approaches most often set out to determine the resource bundles, which provide these firms with competitive advantages and have at times been critiqued for their sampling and data collection methodologies (Rouse & Daellenbach, 1999). In addition, it would appear that these approaches are not comparing ‘like with like’ and as such are less likely to identify comparable resource bundles. Another assumption that is apparent in a number of these methodologies is

that the participants in the research hold comparable knowledge and awareness of the resources as well as the interactions between resources. The dissimilar nature of the firms included in these studies would suggest that this assumption is likely to be incorrect.

Therefore, to highlight these development areas, a methodology was chosen where the research is carried out on a comparable set of firms, without focusing purely on the high performers. Most importantly, the research design allowed the participants to present, define, and prioritise the factors that they perceive as being the most relevant, to be able to ascertain whether the knowledge and awareness was comparable across the participants.

To meet these requirements this thesis employs two studies. Initially an industry profile is formed from secondary data sources, which covers the 30 years since the inception of the New Zealand merino clothing industry. This profile aids in identifying a specific sample of comparable firms. This sample consists of thirteen New Zealand based merino clothing firms, which were founded in the growth stage of the industry (approximately 2000-2010). The industry profile further supports the thesis by providing comparisons and context for the interview findings.

The second study employed open-ended questions and a semi-structured interview process to carry out interviews with the CEOs of thirteen New Zealand based merino clothing firms from throughout New Zealand. These interviews were carried out, for the most part, face-to-face. The frank and open interviews left open the opportunity for the CEOs to express, define, and prioritise the factors perceived to be most important to their firms. These findings are then summarised and compared against the industry profile analysis.

The outcomes of these interviews proved somewhat surprising; with the results questioning more assumptions of RBV research than just the similarity of awareness.

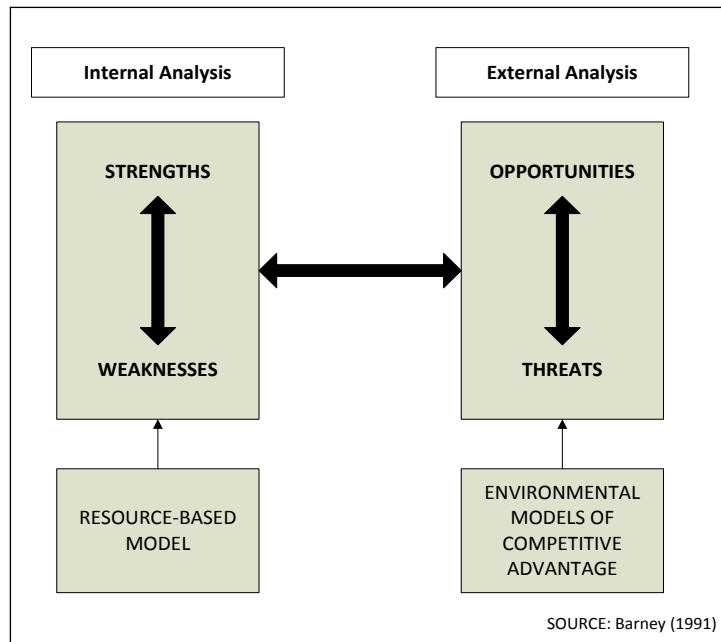
Chapter 2: Literature Review

2.1 Historical Development of the Resource-Based View

Prior to the late 1980s there was a tendency within strategy research to focus on industrial organisation and industry level analyses (Barney, 1991). This tendency led to an overtly externally focused approach to strategy and competitive advantage (Barney, 1991; Michalisin, Smith, & Kline, 1997), possibly spearheaded by economics-based industry analysis models such as the Five Forces Model (Porter, 1980b). However, a number of studies of firm performance across time noted significant effects from firm-level factors as opposed to primarily industry factors (McGahan & Porter, 1997; Rumelt, 1991). These studies, together with a noticeable increased volatility in the external environment in regards to consumers' tastes, identities and technologies (Grant, 1991), led to an increased interest in firms' resources as possible sources of competitive advantage and strategic direction (Barney, 1991). This new perspective became referred to as the Resource-Based View (RBV). Instead of looking externally, outwards from the firm, the RBV tries to connect the two by focusing on the relationship and comparison between the firm's resources and performance with those of its competitors (Barney & Hesterly, 2006).

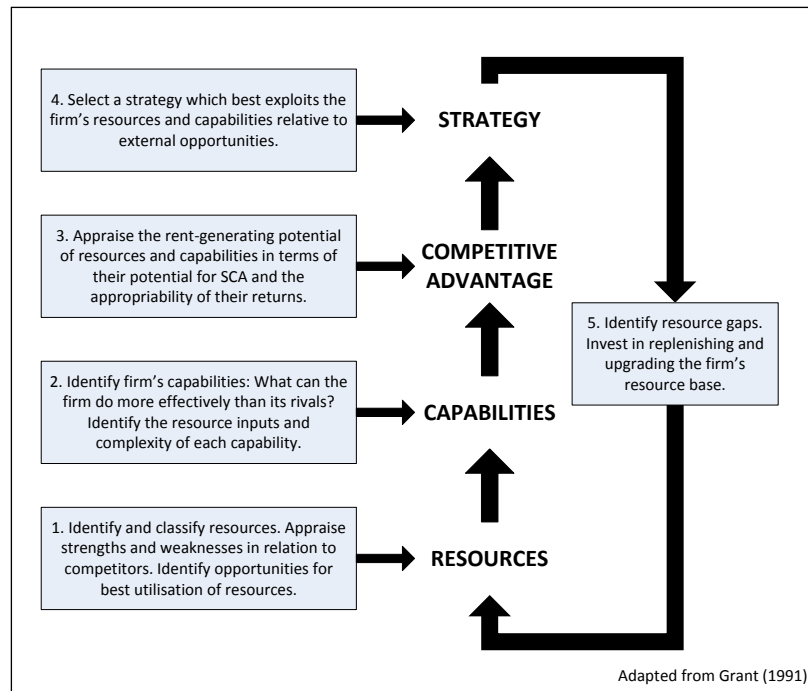
The RBV offered new approaches to understanding resources beyond both the traditional approach used by strategists in analysing a firm's resources as strengths or weaknesses (Andrews, 1971), and those offered through external environment perspectives. By showing the connection between the internal and external environments, the RBV allowed for deeper insights into sources of competitive advantage, as well as analysis of profit, growth, diversification and acquisition potential (Wernerfelt, 1984). This deeper understanding of the firm's strategic options was gained through the inclusion of both the firm's tangible resources, often the focus of economic based perspectives, and intangible resources, which are problematic to measure in an economic perspective (Wernerfelt, 1984). Barney (1991), in a similar vein, illustrated the internal perspective of the RBV and its relationship with traditional external strategy models (Figure 1).

Figure 1: Relationship between Models and S.W.O.T. Analysis



Grant (1991) developed this view further by emphasising the importance of the wider competitive environment; “The critical task is to assess capabilities relative to those of competitors” (p. 121). The relationship between the firm and its competitors is the foundation of Grant’s five-step framework for strategy formulation based on the RBV (Figure 2). This framework explicitly pulls together the relationship, which both Barney (1991) and Wernerfelt (1984) have implied, between the internal resources, external competitors and strategy. Steps 1 and 2 of the framework clearly indicate the relative nature of competition by taking into account the firm’s, and the competitors’, resource and capability bases (Grant, 1991). Step 3 further develops the external relationship by indicating the need for resources and capabilities to be relative to external opportunities (Grant, 1991).

Figure 2: Grant's RBV-Strategy Framework



Although there is a clear relationship between the internal and external environment as shown by these early pioneers of the RBV, there was however a major shift in the assumptions of the internal environment perspective. In making the difference in perspective between the internal and external environments evident, the RBV drew on a set of assumptions, which directly countered those employed by the more externally focused industry analysis models (Michalisin, et al., 1997). Barney (1991) states that the RBV is based on two assumptions: first, firms within an industry or group are heterogeneous, that is, the resources and capabilities controlled by firms differ within the same industry or industry subgroup; second, that these resources are not perfectly mobile, or imperfectly mobile (Peteraf, 1993) across the industry or group. As key resources cannot be traded (Peteraf, 1993), resource heterogeneity can be sustained (Barney, 1991). To these two assumptions, Peteraf (1993) adds a further two theoretical conditions necessary for the formation of competitive advantage under the RBV: ‘*Ex-post* limits to competition’ and ‘*Ex-ante* limits to competition’. The first, ‘*Ex-post* limits to competition’ is concerned with sustaining heterogeneity, hence ensuring that once an advantage is gained, forces must limit competition for that advantage, if it is to be sustained (Peteraf, 1993). ‘*Ex-ante* limits to competition’, on the other hand, allows for the difference between firms, by assuming that the resource,

which offers competitive advantage has limited competition for it, that is, that a firm must have the foresight, or good fortune, to gain it initially (Peteraf, 1993).

These assumptions are in direct contradiction to the prototypical, economic models of industries. Rather than allowing for differences between firms, such models aimed to describe a 'representative firm' within an industry or strategic group (Caves & Porter, 1977; Mahoney & Pandian, 1992). Such approaches are based on an assumption that firms within groups have similar access to strategic resources (Caves & Porter, 1977), and that should heterogeneity occur it would be short lived as other firms respond to return homogeneity (Barney, 1991).

Today the RBV has become cemented in its polemical position in regards to that of the industry based models. As Connor states:

“The emphasis of the RBV approach to strategic management decision-making is on strategic capability of the firm rather than attempting to constantly ensure a perfect environmental fit” (2002, p. 308).

This has led to a number of RBV based studies that have not explicitly noted the relationship between the internal and external environments, such as in Hall (1992, 1993). However, even without the relationship to the external environment, the RBV's influence today is evident in the multitude of empirical and theoretical studies that place themselves under its umbrella (Arend & Lévesque, 2010; Chi & Levitas, 2007; Daellenbach & Rouse, 2007; Molina-Azorin, 2007; Newbert, 2007, 2008; Runyan, Huddleston, & Swinney, 2007), not to mention its inclusion in most business education programmes (Arend & Lévesque, 2010). Further evidence of the RBV's impact upon the field of strategy is its application across a number of related fields, that include entrepreneurship (Alvarez & Busenitz, 2001), international business (M. Peng, 2001), and Strategic Human Resources Management (SHRM) (Wright, Dunford, & Snell, 2001).

2.2 What Is a Resource?

Despite the growth in the RBV research, there is still at times debate over what exactly is meant by 'resource'. Just as the RBV has seen a move away from the economic models of a firm, so too definitions of resources are no longer used

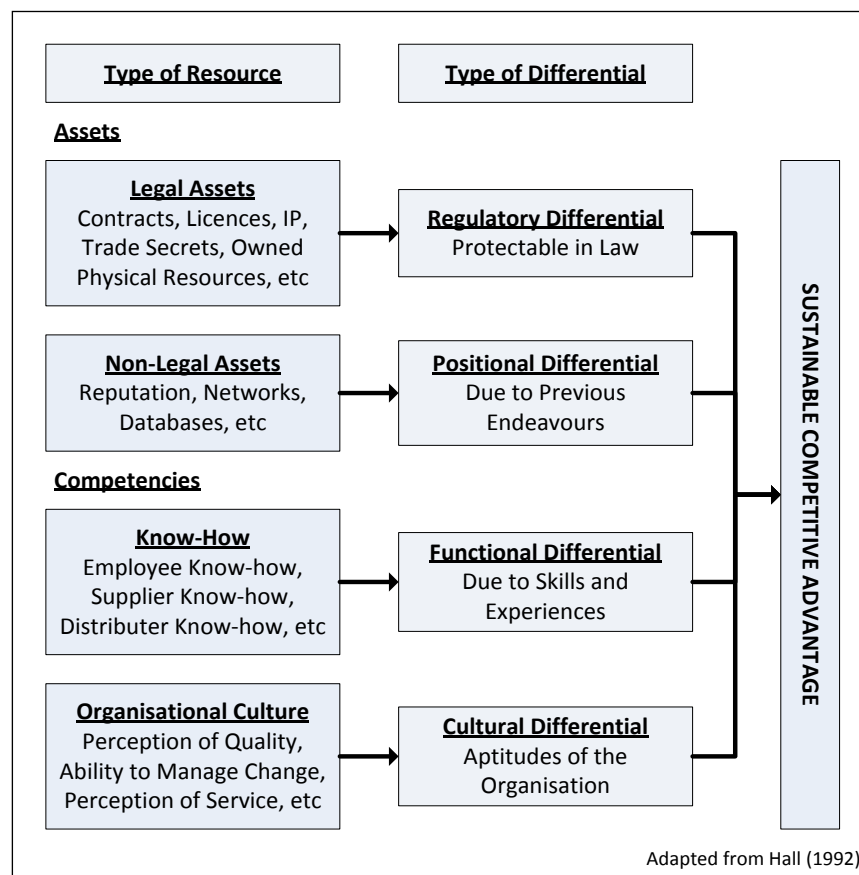
synonymously with the term 'inputs'. While inputs can be, and are traditionally, counted as resources, resources are also often the output produced by inputs (Castanias & Helfat, 1991). Within this broader term for resources, a number of approaches and definitions have been developed. Most are either a derivative of, or a mix of, one or more of four key approaches: Wernerfelt (1984), Barney (1991), Hall (1992) and Black & Boal (1994).

Wernerfelt offered the most basic definition of resources, "as those (tangible and intangible) assets which are tied semi-permanently to the firm" (Wernerfelt, 1984, p. 172). In its broad approach, this definition places few limits or specifications on what is classed as a resource and what is not. In comparison, Barney separated the tangible and intangible resources into categories, originally three (1991), then four (1995):

- 1) Physical Capital Resources:** These include all tangible resources such as: buildings, physical technology, geographic location, access to raw material, and equipment (Barney, 1991).
- 2) Human Capital Resources:** Intangible human-based resources, such as training, experience, judgement, relationships, employees, managerial insight, and intelligence (Barney, 1991).
- 3) Organisational Capital Resources:** The firm's formal and informal structures, such as planning, reporting, controlling, and coordinating systems. This section also includes, very importantly, the firm's relationships between groups both internally and with actors in the external environment (Barney, 1991).
- 4) Financial Resources:** Such as debt and equity (Barney, 1995).

Hall (1992) develops these distinctions further by separating resources into *assets*, something a firm has, and *competencies*, something the firm can do. A similar distinction is seen in Grant's RBV approach to strategy formation, with special note taken of identifying the resources and capabilities of both the firm and its competitors (Grant, 1991). The *assets*, however, are further segmented into *legal assets* and *non-legal assets* (Hall, 1992). *Legal assets* include resources such as contracts, patents, licences, whilst *non-legal assets* consist of resources such as reputation and supplier networks. Also *competencies* are further separated into *know-how* and *organisational culture* (Hall, 1992). The separation and connections between these resources can be seen below in Figure 3.

Figure 3: Hall's Resources, Resource Differentials and SCA



Black & Boal (1994) in a very similar vein to Hall (1992) separate the resources into contained resources (similar to Hall's assets), which can be monetarily valued, and system resources (similar to Hall's competencies), those without definite boundaries and hence difficult to economically value. However, Black & Boal (1994) add another component, which was generally ignored by earlier, as well as some later, definitions.

In their definitions of the two categories, Black & Boal (1994) make a point of including not only the configuration of the resources, but also the relationships between the individual resources. This is incorporated into their definitions with *contained resources* consisting of simple networks, and *system resources* consisting of complex networks (Black & Boal, 1994). This is concisely explained by way of analogy:

“...for the same reason that a list of ingredients is not a cake. A cake requires the ingredients plus their relationships among them for a successful result” (Black & Boal, 1994, p. 134).

This relationship between resources could be argued to be consistent with the capabilities or competencies of the firm, as seen in Grant's (1991) five-step framework or Hall's Functional Differential. That is, the ability of the firm to *do* is as important as it is for the firm to *have*.

It is therefore not surprising that the distinction between resources and capabilities is generally formed on the distinction between a verb and a noun. However, this distinction is often confused, with the definitions of capabilities frequently presented as both the inputs for resources, as well as the output of resources. It follows that capabilities are also often defined as valuable resources themselves. For example, Grant defines capabilities as “a result of teams of resources working together” (1991, p. 120), whilst Hoopes, Madsen, & Walker state that “a capability can be valuable on its own or enhance the value of a resource” (2003, p. 890). However, even with this ambiguity of whether a resource forms a capability or a capability forms a resource, capabilities (and the closely related concept of competencies) have become the focus of a wide body of RBV-based research.

The areas of Core Competencies (Gallon, Stillman, & Coates, 1995) and Dynamic Capabilities (Eisenhardt & Martin, 2000; Teece, Pisano, & Shuen, 1997; Wilkens, Menzel, & Pawlowsky, 2004) have been broadly researched in conjunction with the RBV. In the case of Prahalad & Hamel (1990), the RBV is not explicitly referred to, however, their definition of core competencies contains RBV aspects such as ‘know-how’ and learning, as well as the importance of combining resources for competitive advantage:

“Core competencies are the collective learning in the organisation, especially how to coordinate diverse production skills and integrate multiple streams of technologies.” (Prahalad & Hamel, 1990, p. 4)

Dynamic Capabilities in a similar vein also further influence the definition of a resource. Dynamic Capabilities are:

“the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments” (Teece, et al., 1997, p. 516).

In this way Dynamic Capabilities consist of a process of renewal, in which changing resources are able to respond to the changing environment (Wilkins, et al., 2004). That is, a Dynamic Capability is not only a resource itself, but is also the process by which new resources may be created, found, or by which existing resources can be combined into new resources in response to changes within the firm’s internal and external environments (Eisenhardt & Martin, 2000).

Given these definitions of capabilities and competencies, together with the aforementioned uncertainty of the precise relationship between resources and capabilities, it is clear that no single definition is likely to encompass the entire aspect of capabilities. Furthermore, from the myriad of approaches, definitions, and terminology that abound within the RBV literature, it is apparent that the terms ‘resources’ and ‘capabilities’ have come to cover and include every aspect within an organisation. Therefore, this thesis will adopt a similar definition for ‘resources’ and ‘capabilities’ as that of Barney (1995), in which capabilities are included as one of a number of specific types under a broad perspective on resources. That is:

*Resources include all financial, physical, human, and organisational assets and capabilities **available** to a firm to develop, manufacture and deliver services or products.*

Noteworthy in this definition is the change from Barney’s (1995) original definition, whereby the word ‘used’ is replaced by ‘available’. This replacement allows for the possibility that an incomplete awareness of a firm’s resources may be held (Grant, 1991). The use of the word ‘available’ allows for the inclusion by the researcher of

resources of which the firms may not be aware. An example from Rouse and Daellenbach (1999) illustrates the importance of this difference. In this instance, a firm was about to outsource its delivery service when by chance a consultant went out with the firm's drivers. From his observations, it became clear that the firm's competitive advantage was sourced from the relationships formed by the one-on-one contact between the delivery drivers and their customers (Rouse & Daellenbach, 1999). This illustrates how the firm was unaware of the value of the resources it held, in this case the competitive advantage forming resource it held by having an 'in-house' delivery team.

2.3 Resources and Competitive Advantage

The identification of this myriad of resources does not imply, however, that all resources are equal (Campbell-Hunt et al., 2001; Michalisin, et al., 1997). The fundamental assumption of the RBV is that resources are heterogeneous and that differing levels of competitive advantage can be attained through the identification and exploitation of critical or strategic resources (Ragone, 1999). The level, or sustainability, of competitive advantage will be dependent on a number of factors. Although a number of tests exist which can be used to determine the level of advantage – such as the competitive superiority test, imitability test, duration test, appropriability test, and the substitutability test (Ragone, 1999) – Barney's (1995) Value, Rare, Inimitable, and Organisation (VRIO) framework appears most often adopted. This framework offers an approach to determining not only whether a resource offers a competitive advantage but also the expected 'sustainability' of the competitive advantage. This approach has been used across a number of industries and organisations, the most relevant to this thesis being Campbell-Hunt and associates' 'World Famous in New Zealand' research (Campbell-Hunt, et al., 2001).

The VRIO framework lists the four characteristics that are necessary and sufficient for a resource to be a basis for a firm's competitive advantage. Barney (1995, p. 50) presents them as four questions:

1. The question of Value.
2. The question of Rareness.

3. The question of Imitability.
4. The question of Organisation.

The first two questions are straightforward in their necessity for competitive advantage. By asking whether the resource could add value by allowing the firm to exploit opportunities and/or counteract threats (Barney, 1995), question 1 clearly indicates the relationship of the internal resource to the external environment (Figure 1). As such, the value of the resource is based on the extent to which it enhances the firm's competitive position (Barney & Hesterly, 2006; Newbert, 2008). Therefore, resources and capabilities that are of a low value will offer only limited or no advantage to the firm (Newbert, 2008); whereas resources of a higher value will offer at the very least competitive value in the form of competitive parity (Barney & Hesterly, 2006). However, the value of a resource is not static; though a resource may have once added value for a firm, changes within either the internal or external environments may lead to a change in its value to the firm (Barney, 1995). Consequently, the value of the resource is directly related to the context in which the firm operates (Barney, Wright, & Ketchen Jr., 2001).

Question 2 determines the level of control and availability of a resource. This is really a test of the mobility of a resource (Peteraf, 1993), as discussed under the fundamental assumptions of the RBV. If the resource is valuable but is controlled by, or available to, a number of competing firms, then the resource can only offer competitive parity (Barney, 1995). However, should a resource be rare and its mobility can be controlled by a firm, then it should remain immobile or imperfectly mobile within the industry. Immobility or imperfect mobility indicates that the resource is non-tradable, and as such not available on the open market (Peteraf, 1993). If a resource can be bound to a firm for use over a prolonged period, it could therefore form a competitive advantage (Peteraf, 1993).

Questions 3 and 4, in comparison to questions 1 and 2, are much more involved. Question 3 determines the imitability of the resource. If competitors can gain resources, at similar cost, that imitate the resource forming a firm's competitive advantage, then that competitive advantage will only be temporary (Grant, 1991). Imitation of a competitive advantage forming resource can occur through substitution

(Barney, 1991), or through duplication (Barney, 1995). Duplication is also known as replication (Grant, 1991). Substitutability occurs when two different firms can separately implement the same strategies though the use of two strategically equivalent, though different, firm resources (or two bundles of firm's resources) (Barney, 1991). Duplication occurs when a competing firm builds a similar kind of resource base as the firm it is imitating through internal investment (Barney, 1995; Grant, 1991). Duplication, due to its following nature or copying nature, is likely to be limited to only being able to copy the leading firm's externally observable resources (Godfrey & Hill, 1995).

As following firms will attempt to imitate competitive advantage forming resources, resources that are more difficult to imitate will therefore offer an enhanced competitive advantage. Imitation of a resource, by either substitution or duplication, is on the whole likely to be more difficult if the resource is unobservable (Godfrey & Hill, 1995), that is, the result of multiple small decisions; is a socially complex resource; or is the result of the firm's historical foundation (Barney, 1991, 1995). The history of the firm in particular has been the focus of a number of studies, especially in relation to path dependency. Although path dependency has primarily focused on firms becoming 'locked-into' inferior technologies (Stack & Gartland, 2003), the importance of the firm's history and its historical development, together with how to break free from 'locked in' paths, have begun to gain recognition (Campbell-Hunt, et al., 2001; Greener, 2002).

Although the fulfilment of the questions so far will supply at least a temporary form of competitive advantage, question 4 explores the integration of the resource into the firm. To fully exploit a resource or bundle of resources the resources must be organised into the processes and behaviours of the firm (Barney, 1995). As Grant (1991) states:

“Creating capabilities is not simply a matter of assembling a team of resources: capabilities involve complex patterns of coordination between people and between people and other resources” (Grant, 1991, p. 122).

For a resource to be organised into the firm, it will need to be supported by a number of other resources. These supporting resources are called *complementary resources*,

and are primarily found within the formal processes and controls of the firm (Barney, 1995). However, these resources are not sources of competitive advantage on their own. It is through the combination of *complementary resources* with *competitive advantage forming resources* that a firm is able to organise the resource, so as to exploit the full potential of the resource in forming the firm's competitive advantage (Barney, 1995).

The complete VRIO analysis together with its relationship to competitive advantage, and the firm's strengths and weaknesses is illustrated in Figure 4.

Figure 4: VRIO framework¹

	V	R	I	O	Competitive Implications	Strength or Weakness
RESOURCE ONE	✗			✗	Competitive Disadvantage	Weakness
RESOURCE TWO	✓	✗		↕	Competitive Parity	Strength
RESOURCE THREE	✓	✓	✗	↕	Temporary Competitive Advantage	Strength and Distinctive Competence
RESOURCE FOUR	✓	✓	✓	✓	Sustainable Competitive Advantage	Strength and Sustainable Distinctive Competence

Adapted from Barney & Hesterly (2006)

2.4 Which Resources Offer a Competitive Advantage?

The above framework can determine the level of competitive advantage possible from a resource. However, the RBV is based on the assumption of heterogeneity, not only in the dispersal of resources, but also in the value offered by the resource to a firm. That is to say, not all resources and capabilities are created equal. Some resources, for example, may be required for a competitive advantage to occur, but alone do not offer a competitive advantage (Barney, 1995; Michalisin, et al., 1997), whereas other resources may in fact lead to a competitive disadvantage (Arend & Lévesque, 2010; Godfrey & Hill, 1995; Powell, 2002). For this reason, much research attempts to identify or limit the search area for these competitively critical resources or

¹ The term 'Distinctive Competence' (Barney & Hesterly, 2006) reflects the heterogeneous nature of the resource relative to most industry members and that it can lead to above average performance levels.

capabilities (Abimbola & Kocak, 2007; Black & Boal, 1994; Hall, 1992, 1993; Runyan, et al., 2007).

In limiting the search area for competitive advantage forming resources, one key argument is that due to tangible resources' 'tangible' nature, they are less likely to be a source of competitive advantage. Tangible resources are traditionally available on the open market, and as such they cannot be controlled or be determined as rare, thus they are unlikely to be the source competitive advantages (Campbell-Hunt, et al., 2001; Grant, 1991). It is therefore not surprising to find that a number of studies have specified that the key resources and capabilities for the formation of competitive advantage are to be found within intangible resources (Campbell-Hunt, et al., 2001; Grant, 1991; Hall, 1992, 1993; Michalisin, et al., 1997; Molloy, Chadwick, Ployhart, & Golden, 2011, forthcoming).

Hall (1992) identifies the top five intangible resources for business success as: firm reputation, product reputation, employee know-how, culture, and networks. It should be noted that for Hall (1992, p. 138), networks are "those personal relationships which transcend the requirements of organisational structure", in which case, networks and relationships can be seen as synonymous. Campbell-Hunt et al. (2001) go further in identifying eight capabilities that meet the VRIO requirements, which include four resources and capabilities similar to Hall's list. The similar resources identified are competitive advantage capabilities formed through: networks of external relationships; strong internal networks, built through relationships between staff and departments; the reputation of both product and firm; as well as culture, in the form of cultural norms present within the organisation (Campbell-Hunt, et al., 2001). In addition to Hall's (1992) list, Campbell-Hunt et al. (2001) included innovation, learning organisation, multiple technologies, and organisational configurations as sources of competitive advantage.

It is noticeable that the most commonly recognised intangible resources, that is Hall's (Hall, 1992) top five, are all formed through social complexity (Michalisin, et al., 1997). Socially complex resources are those resources and capabilities which are formed through the coordinated actions of individual people (Grant, 1991), are embedded in the employees both collectively and individually (Hall, 1992), accumulate within the complex social constructions from which the firm is made, and

cannot be bought or sold (Campbell-Hunt, et al., 2001). These characteristics form the key argument for intangible resources as sources of competitive advantage.

2.4.1 Top Management and Key Personnel

Although this social complexity implies that ‘people’ are important for the competitive advantage of a firm, there is still uncertainty within the research on top management and key personnel as to what extent people count (Castanias & Helfat, 1991). Such research has divided researchers. On one hand, Peteraf’s (1993) example of the perfect mobility of a Nobel Peace prize scientist indicates that key staff can be purchased or moved from one firm to another, and hence makes a strong case that key personnel cannot be sources of competitive advantages (Campbell-Hunt, et al., 2001). On the other hand, Rouse and Daellenbach (2002) argue that though key personnel or groups are mobile and they can still be regarded as a source of competitive advantage. In the case of key personnel being recognised as core sources of advantage, the organisation would then need to incorporate other resources and processes to enhance and protect these people. Or as they state, “in situations where a firm’s core competency ‘has feet’ and can ‘walk away’ the threat of exit can be offset” (Rouse & Daellenbach, 2002, p. 964).

In addition to the argument for personnel as sources of competitive advantage, Castanias and Helfat (1991) argue that the activities of the top management (CEO or CEO plus top management team) bring about the strategic and operational decisions that form competitive advantage. The CEO plays a key role in leading the formation of the environment in which further competitive advantage resources may form, whilst also carrying out key relations with the external environment. That is:

“What is key is that potentially rent-generating cultural resources and organisational skills and abilities do not emerge without effective top management within the firm. CEO’s also have externally-related functions that may generate rents for particular firms or industries” (Castanias & Helfat, 1991, p. 157).

However, Castanias and Helfat (1991) also recognise that as environments and firms evolve so too do the managerial skills required. Therefore, as with the definition of resources covered above, and in alignment with dynamic capabilities, the CEO and

key personnel can only be a competitive advantage as long as the market requires that particular resource. This dynamic situation means that it is uncertain as to the extent or period of competitive advantage a CEO or key personnel may hold, and as such, the debate as to the competitive advantage forming nature of key personnel will never be definitively solved. However, two factors may place this debate in perspective. First, the undeniable fact that people are mortal is often ignored, or under developed, within the literature. Further drawing on the example from Rouse and Daellenbach (2002), if the resource has feet, it may just walk in front of a bus. Secondly, although CEOs may not be a competitive advantage in themselves, the governance they provide plays a key role in utilising or preventing a firm's competitive resources in reaching their full potential (Barney, et al., 2001). Therefore, from a practitioner's perspective, there is a heightened risk if the firm's competitive advantage is reliant upon one individual or group. Hence, it seems best to view key personnel as *complementary resources*. However, from a researcher's perspective, the CEO's and key personnel's positions and activities within the firm make them an important and primary source of data for competitive advantage research.

2.4.2 Culture, Identity and Small- to Medium-Sized Enterprises

Closely related to the environment formed by the CEO is the concept of firm culture and identity. Culture receives expansive mention within the literature as a key intangible resource. Clearly founded upon social interaction, culture is often touted as a key source for a firm's competitive advantage (Alvarez & Busenitz, 2001; Barney, 1995; Black & Boal, 1994; Branco & Rodrigues, 2006; Campbell-Hunt, et al., 2001; Hall, 1992; Michalisin, et al., 1997; Rouse & Daellenbach, 2002). However, the social complexity of culture makes an exact definition difficult. In general, culture is seen as a complex collective construct (Alvarez & Busenitz, 2001; Barney, et al., 2001; Rouse & Daellenbach, 2002), in which aptitudes (Hall, 1992), beliefs (Barney, 1986), nationality (Hofstede, 1980), experiences (Schein, 1996), values (Barney, 1986; Conner & Becker, 1994), norms (Campbell-Hunt, et al., 2001), meanings (Fiol, 2001), and attitudes (Carden & Murray, 2007) are shared by a distinct group of individuals. From this multitude of approaches in defining sources of culture, it is fair to say that culture is the broad term used to accommodate whichever shared aspect that is seen to be binding a specific group together.

The importance and fascination with culture as a resource for competitive advantage lies in the fact that it is deeply embedded within a firm (Campbell-Hunt, et al., 2001), often difficult to observe (Schein, 1996), and hence difficult to imitate (Barney, 1986). These competitive advantage forming attributes have led to a number of studies trying to understand how a firm's culture, or cultures (Schein, 1996), are formed and therefore influenced (Barney, 1986; Fiol, 2001; Schein, 1996; Sillince, 2006). This line of research has proceeded in two key directions: first, in a similar vein to Castanias and Helfat (1991) as mentioned earlier, the importance and influence of the CEO and key personnel (Hall, 1992), and secondly the impact of identity (Fiol, 2001; Sillince, 2006).

From a broad perspective, identity as a source of competitive advantage works on the assumption that resources and identity share a relationship in which resources shape identity, whilst identity gives meaning to resources (Sillince, 2006). This relationship assumes that a firm has the ability to possess or maintain multiple identities from which the most relevant identity for a given situation or context can be chosen (Fiol, 2001; Sillince, 2006). Although Fiol (2001) allows for a firm to contain multiple identities as determined by situational context, these identities are grounded on an unchanging 'anchor' of values and outcomes. In this way, identity and culture can either be a competitive advantage forming resource, or a complementary resource that supports competitive advantage forming resources.

The above broad perspective of identity allows for a general understanding as to how identity can be the basis of competitive advantage. However, given that 96% of New Zealand businesses employ less than ten people (Carden & Murray, 2007), it is identity's application within the Small- to Medium-Sized Enterprises (SME) research which is of more interest for this thesis. Within the SME literature, identity has been used in conjunction with the RBV in not only general SME research (Abimbola & Kocak, 2007; Ragone, 1999; Runyan, et al., 2007), but also more narrowly in family-based business research (Campbell, Heriot, & Welsh, 2007; Craig, Dibrell, & Davis, 2008), as well as ethnic business research (Miller, Thomas, Eden, & Hitt, 2008).

Across these studies, SMEs are traditionally seen as having a much smaller tangible resource base, especially in regards to most financial and physical resources, than their larger competitors (Craig, et al., 2008; Miller, et al., 2008; Runyan, et al., 2007).

This requires SMEs therefore to compete using their intangible resources. Consequently, it is not surprising to find the identity emphasised within SME literature. Identity is seen as a key resource, not only by itself, but also as a complementary resource for the formation of other intangible resources, such as the aforementioned culture (Campbell, et al., 2007; Miller, et al., 2008), reputation (Abimbola & Kocak, 2007), and social capital (goodwill and customer loyalty) (Craig, et al., 2008; Miller, et al., 2008; Runyan, et al., 2007).

However, it is interesting to note that identity, like culture, is a vast term, which can be difficult to define. Identity was therefore used to describe whichever specific visible trait the study was dealing with. For example, community identity was identified as important for downtown storeowners (Runyan, et al., 2007). Increasing community identity is used as an approach by storeowners to lessen the effects of the entrance of discount warehouses (Runyan, et al., 2007). Similarly, a strong family identity can be utilised by a family business to influence customers in their purchasing decisions (Craig, et al., 2008). Therefore, identity, like culture, is used to define different visible individual and firm-specific resources as they are presented to key external stakeholders.

2.5 Research Gap

The lack of specific definitions for intangible resources makes specific measurement difficult for the researcher and practitioner alike. This difficulty is part of one of the common debates and critiques within the RBV literature, that of method (Kraaijenbrink, Spender, & Groen, 2010; Molloy, et al., 2011, forthcoming). In other words, how best to account for the unobservable? (Godfrey & Hill, 1995). This issue in identifying resources has been recognised even prior to the founding of the RBV as a research methodology, with Lippman and Rumelt arguing that “it may never be possible to produce a finite unambiguous list of factors” (1982, p. 420) and Wernerfelt acknowledging that “the practical difficulties involved in identifying resources” would require further study (1984, p. 180). However, it is apparent from current literature that researchers are still to solve this challenge (Kraaijenbrink, et al., 2010; Molloy, et al., 2011, forthcoming). For example, Arend and Lévesque (2010) argue that the RBV provides managers with neither the ability to identify critical

resources, with any accuracy, nor indicate levels of required investment should critical resources be identified.

Similarly, the RBV is critiqued for being based upon purely tautological premises. That is, the RBV's general assumptions of resource heterogeneity and resources' ability to form sustainable competitive advantage (SCA), are based upon a universal, and hence indisputable, logic (Powell, 2001). To counter such claims, it is argued that empirical research providing conclusive evidence in support of the theory is needed. However, given the aforementioned difficulty in defining key resources, and the inherent difficulty in measuring such vague concepts, it is not surprising to note that little more than half of the empirical studies actually support the RBV (Newbert, 2007). Many studies, when faced with this limitation have looked to enhance the RBV with other theories, for example Industrial Organisation (Arend & Lévesque, 2010), Dynamic Capabilities (Eisenhardt & Martin, 2000), Competitive Heterogeneity (Hoopes, et al., 2003), as well as integrating RBV with transaction cost economics or real options theory (Leiblein, 2003). Alternatively, other researchers call for approaches which are more suited towards empirical RBV research (Godfrey & Hill, 1995; Levitas & Chi, 2002; Newbert, 2007; Rouse & Daellenbach, 1999, 2002). Such approaches fall into two broad categories: those that call for stringent traditional empirical research (Godfrey & Hill, 1995; Levitas & Chi, 2002), and those calling for new empirical approaches to deal with the vagueness and non-specific aspects of the RBV (Newbert, 2007; Rouse & Daellenbach, 1999, 2002).

The call either for a more stringent scientific research of RBV constructs or for new approaches to RBV research has highlighted a number of inherent problems within conventional approaches to RBV research. However, these problems have been noted since the foundation of the RBV and it is clear that these problems are still current (Arend & Lévesque, 2010; Kraaijenbrink, et al., 2010). Although not wanting to add to the already present critiques, three further aspects are presented here. These aspects are the limited competitive relativity currently present, the specific focus on high performers, and lastly the assumption of homogeneous awareness across firms. It is hoped that these additional aspects may also assist in addressing some of the aforementioned criticisms levelled at the RBV.

2.5.1 Competitor Relativity

First, it is noticeable that the competitor relativity present in the founding literature (Barney, 1991; Grant, 1991; Wernerfelt, 1984) is missing from some later empirical research (Rouse & Daellenbach, 1999). The lack of competitive relativity is explicitly notable in the studies of Hall (1993) and Campbell Hunt et al. (2001). Both of these studies focused upon high performing firms and sought to identify the firms' competitive advantage forming resources. Hall's (1993) study included a motor manufacturer, a baker, a retailer, a manufacturer of snack foods, a bus company, a manufacturer of branded sports clothing, and a supermarket retailer. Similarly, Campbell Hunt et al.'s (2001) study covered an even more eclectic group of case studies that included a ready to assemble furniture manufacturer, an office furniture solution company, an agricultural equipment manufacturer, a dairy cooperative, a winery, a chemical company, an engineering firm, a mining equipment manufacturer, and an electronics company. In each of these studies, arguments are made for the identification of competitive advantage forming resources and capabilities, with no explicit study of the firm's competitors. Without understanding the extent to which these resources and capabilities are present, utilised or exploited by the firm's *competitors*, only limited conclusions can be made in relation to the firm's *competitive advantage*.

The limited number of comparative studies within one competitive group or industry indicates a move within the RBV research towards a similar myopic approach to that of the industrial organisation and industry-level analyses. In the same way that industry-based models assumed that firms within an industry had homogenous resources and capabilities and that the industry level was heterogeneous, the RBV seems to have moved towards assuming that the industry environments are homogenous and that a competitive advantage within one industry will be a competitive advantage in another. This assumption has therefore led to an emphasis being placed on comparisons to same industry firms (Rouse & Daellenbach, 1999).

2.5.2 The Focus on High Performers

The tendency to focus on high performing firms, with little account for the industry context in which they exist, elevates the resources of high performing firms to be perceived as an aspiration for poor performing firms. That is, if research determines

that a certain bundle of resources are held by high performing firms, it is assumed all firms that wish to be high performing must attain such resources too. It must be noted though, that some researchers recognise this limitation and recommend that their results not be taken as a guaranteed formula for success (Campbell-Hunt, et al., 2001). Even so, this approach is obviously counterintuitive. Where it may seem that identifying the bundle of resources that form a firm's competitive advantage will allow other less competitively positioned firms to become as high performing, according to the RBV the opposite should be true.

The RBV is based upon an assumption of firm and resource heterogeneity, hence appears, in its foundation, to endeavour to find a way with which to differentiate a firm from its competitors. However, the move by researchers to find and accurately define the resource or bundle of resources that underpins competitive success implies a movement towards copying and following high performing firms. In this way, the researcher determines and places their perceived value upon the resource; deeming it a competitive advantage forming resource. However the distinguishing of such resources, logically leads towards the removal of resource heterogeneity, which initially drove the formation of the RBV and would lead to more homogenous firms and resources.

Furthermore, the identification of the resources needed for competitive advantage could affect whether resources underlying competitive advantage remain rare and inimitable. Once a resource or bundle of resources is identified and codified as the basis of a competitive advantage, because its value is more readily recognized it will now be a clear target for imitation. If researchers are successful in identifying and fully codifying the resource then it is likely also transferable. In other words, factors can only become mobile once they become known (Lippman & Rumelt, 1982).

2.5.3 Awareness

In Entrepreneurship Theory, the awareness of the entrepreneur is recognised to be distinct from the other participants within an industry (Alvarez & Busenitz, 2001; Foss & Ishikawa, 2007; Westhead, Wright, & Ucbasaran, 2001). The entrepreneur is said to have prior industry knowledge (Foss & Ishikawa, 2007), be privy to wider business insights (Westhead, et al., 2001), or be in possession of information that is

not openly available (Rumelt, 1981). This heterogeneous dispersal of awareness across the entrepreneur and the other industry participants identifies the level of awareness as a potential competitive advantage for the entrepreneur. Interestingly this is a major difference between RBV and Entrepreneurship Theory. Where the RBV focuses on the heterogeneity of the resources themselves, Entrepreneurship Theory focuses on the heterogeneity in the beliefs of the value of resources held by the entrepreneur (Alvarez & Busenitz, 2001).

It is therefore possibly not surprising to note that within the RBV literature the heterogeneity of a firm's or individual's awareness of their resources is still largely ignored or omitted from the actual research (Alvarez & Busenitz, 2001; Rumelt, 1981). Although in the literature there is occasional recognition of the possibility of there not being a homogeneous awareness of resources across firms, these occasions are normally treated as an anomaly caused by an individual trait, rather than as a substantial factor influencing the theory. For example, Stevenson (1976) and Grant (1991) argue that firms are often blinded by "past glories, hopes for the future and wishful thinking" (Grant, 1991, p. 121); thus the resources of a firm must be objectively appraised against those of the firm's competitors. Peteraf (1993) acknowledges heterogeneous awareness in the need for *Ex-ante* limits to competition, though the differences between firms are again limited to the ambiguous personal traits of "foresight or good fortune" (Peteraf, 1993, p. 185).

Furthermore, in the New Zealand context it is not surprising, given New Zealand's over-representation of SMEs, to find that entrepreneurship is a key factor mentioned in New Zealand literature (Callaghan, 2009; Campbell-Hunt, et al., 2001). The high concentration of SMEs makes it is likely New Zealand firms will be run by and owned by an individual or group of individuals with entrepreneurial characteristics. However, even given this noticeable mention of entrepreneurship, the influence of the entrepreneurs' heterogeneous awareness of the firms' resources is not taken into account (Callaghan, 2009; Campbell-Hunt, et al., 2001).

It would therefore appear that within the majority of RBV research that homogeneity in awareness is assumed. That is to say, that every CEO has complete knowledge of their firm's resources and how these resources interact. This assumption of homogeneity appears to have led to research either in which CEOs are given the

definitions of resources to lead them in their insights, or, as mentioned above, in which only high performing firms are focused upon. For example in Hall's (1992) study 95 respondents across five broad sectors (i.e. manufacturing consumer products, which could include any number of specific manufacturing industries) were all asked:

“What contribution did (in 1987), and does (in 1990) the [one of 12 resources] make to the overall success of the business?” (Hall, 1992, p. 140)

Such survey questions would likely rely on the assumption that each CEO has complete knowledge and awareness of which of the 12 resources are present, how they interact, and how they affect the firm's performance. Although such an approach can clearly indicate which of the 12 resources the CEO perceived to be the most important, it gives little comparable insight into how the CEO measured this contribution, how this insight compares across the different industries, or whether these 12 specific resources cover all of the resources which each CEO would rank as the most critical.

It is possible that research which focuses on high performing firms may not be as influenced by disparities of awareness. Through focusing on high performing firms, an underlying assumption could be held that firms, which are already high performing, are more likely to be aware of their resources and capabilities, thus limiting the difference of resource awareness between sample firms. However, within an industry there can only ever be a limited number of 'high performing' firms (Zammuto, 1988) and as such the formation of comparable samples would be difficult leading to a tendency to include multiple industries.

2.6 Summary

These critiques suggest that a revised methodology is needed which holistically accounts for each of the above aspects. First, it is important to ensure the collection of a comparable data set. This applies not only to collecting data within a single industry, but also within a comparable sample. The sample selection could take into account, among others, age, size, and market direction. Secondly as '2.5.2 The Focus on High Performers' outlines above, studies which set out to identify the specific preconceived resource, or bundle of resources, as competitive advantage forming are limited in the results they can produce. However, the identification of which

resources firms are aware of across a single industry has the potential to better understand similarity and heterogeneity amongst the firms. In particular, it suggests that relatively more high performing firms will be aware of and have acquired access to a higher number of resources in comparison to their competitors.

Furthermore, as opposed to approaching firms with a preconceived list of resources, a new approach is needed that allows firms to present their perception of which 'factors' are most important to their particular firm. This may also illustrate differences in awareness, as well as identify factors that are widely known and those that are specific to the certain firms. By asking questions in regards to broad concepts from both internal and external environment theories, the resources and capabilities used to succeed in the industry should come to the fore. This has two important secondary benefits. First, it removes the necessity of the researcher to operationalise all tangible and intangible resources, but rather allows the holder of the resource to define and prioritise them. Secondly, by utilising concepts from both internal and external environments in the formation of questions, it accounts for the link between internal and external environment theories, as first intended by RBV founders, such as Wernerfelt (1984) and Barney (1991).

It is clear therefore that a RBV study within the New Zealand context needs to:

1. Compare similarly matched firms within an industry, as well as within strategic groups;
2. Investigate which resources are actually important throughout the entire industry and not just within the higher echelon; and
3. Does not set out to confirm, or identify, a preconceived list of resources: instead it should allow the firms to present the factors as they see them.

Researching similar firms from a single industry, i.e. comparing 'apples with apples', is also intended to form results, which will be of benefit to both practitioner and academic. Data that is directly comparable between competitors should allow for insights for firms looking to improve their competitive position, as well as for academics in search of a deeper understanding of the RBV or the sector being researched. Additionally, by identifying resources deemed necessary for high performance, it provides information from which less performing firms can build and

develop through their own perception of which resources are required to become higher performing, rather than remove the high performing firm's competitive advantage.

Chapter 3: Methodology

3.1 Introduction

The methodology sections for this thesis are presented across two chapters, Chapters 3 and 5. This first methodology chapter presents the methodology foundation upon which both industry profile methodology and the primary research methodology are based. Following on from this, this chapter will explain the methodology used to develop the industry profile. The industry profile is generated from a range of secondary sources and is used to present the evolution and current state of the New Zealand merino clothing industry.

The primary research draws on the industry profile to provide the basis upon which the participants were selected. For this reason, Chapter 5 then extends the methodology to cover the primary research section of this thesis. Chapter 5 will firstly present the research questions used to direct the primary research. It describes the data that will be required and the attributes of the sample group from which the data will be collected. The sample group will be selected from the growth stage of the industry, that is, firms that were founded within the last ten years. This is then followed by an explanation of the method of data collection and the approach to data analysis. Finally, limitations of this methodology are acknowledged.

3.2 Methodology

Research within the RBV literature is resoundingly quantitative in its approach. In a recent review of empirically based RBV articles, 89.29% were deemed quantitative in their approach (Ambrosini, Bowman, & Collier, 2010). An earlier review testing the support of empirical articles of the RBV excluded qualitative articles altogether based on the inability to compare statistical empirical evidence with that of qualitative evidence (Newbert, 2007). However, the vagueness and lack of definition across a number of resources and concepts make the operationalizing of resources difficult (Chi & Levitas, 2007), and hence there is a variable array of operationalising approaches across studies (Chi & Levitas, 2007; Newbert, 2007). For example, as Newbert's article illustrates:

“Like resources, capabilities, and core competencies, the manner in which inimitability has been operationalized has also varied considerably” (Newbert, 2007, p. 138).

The emphasis on quantitative-based research has led to the conventional research methods of either large-scale cross-industry quantitative studies (e.g. Hall, 1992), or selective sample selection of cross-industry high performing companies (Hall, 1993). As noted earlier, these approaches are limited in the insights that they can produce. In the case of large-scale cross-industry quantitative approaches, the sampling approach is dominated by a concern for generating sufficient sample sizes. Such methods can lead to the inclusion of firms, which if approached through a structured selection approach would be deemed to be without competitive advantage (Rouse & Daellenbach, 1999). Although the inclusion of such firms could be beneficial for comparative data, the cross-industry approach can make data difficult to interpret. The focus on purely successful companies across industries produces similar limitations. The difficulty in comparing data from dissimilar firms from different industries, can lead to challenges in forming clear conclusions as to which resources may form competitive advantage. It is therefore not surprising that substantial critique is levelled at the inconsistent and inconclusive results seen in empirical articles that attempt to provide generalisable relationships between resources and performance (Godfrey & Hill, 1995; Levitas & Chi, 2002; Newbert, 2007; Powell, 2001).

In response to these critiques, a number of researchers have called for the application or inclusion of qualitative research approaches (Molina-Azorin, 2007; Rouse & Daellenbach, 1999), or as Godfrey and Hill (1995, p. 531) state:

“Qualitative methodologies, such as multiple case studies, event histories, and ethnographic inquiries may represent the best way forward in observing the effects of otherwise unobservable, idiosyncratic effects on business strategy and performance.”

Qualitative methods in comparison to quantitative methodologies allow the researcher to carry out research in firms rather than just on firms (Rouse & Daellenbach, 2002). This change in perspective comes from the researcher engaging with the participant

through a variety of methods, such as observation, and various forms of participation interviews (Creswell, 2003). As opposed to the quantitative approach of following and testing a preconceived set of assumptions (Easterby-Smith, Torpe, & Jackson, 2008), qualitative research is often used when the exact data needed to determine an accurate answer is not known at the outset and as such evolves during the research process (Easterby-Smith, et al., 2008). Predominantly this implies a complex situation, which cannot be simplified without the possibility of losing important data (Richards, 2005). For this reason, qualitative methods are often emergent in nature, with the research question evolving with the information as it arises (Creswell, 2003; Eisenhardt, 1989). This ongoing process allows the researcher to respond to growing knowledge of the field by further determining which information to investigate (Eisenhardt, 1989).

Interviews are used extensively within qualitative research for data collection (Fontana & Frey, 2000). Interviews consist of active participation (Creswell, 2003; Fontana & Frey, 2000; Holstein & Gubrium, 2004), in which the interviewee and interviewer interact, allowing the interviewer to view the interviewee's perspective of the world. Through seeing what is on their mind (Patton, 2002), interviews allow the interviewee to show both how they perceive the world, as well as how they act within the world (Silverman, 2000). There is a variety of interview styles, from structured interviews which stick to prescriptive question sets with limited responses at one end, to unstructured interviews which represent causal free flowing conversations at the other (Fontana & Frey, 2000). A semi-structured interview provides a broad topic or subject area in which the interviewer can probe, explore, and ask further questions to "elucidate and illuminate that particular subject" (Patton, 2002, p. 343). Given the exploratory nature of this thesis, semi-structured interviews appear to offer the most effective approach to allow the participants' perspectives and opinions on as wide a breadth of factors as possible to be queried, whilst restricting the interviews to the industry and firms at hand. As Heaton says (2004, p. 58),

"In exploratory studies, open and semi-structured interviews are often used in order to give informants the opportunity to highlight topics related to the inquiry rather than have these entirely pre-defined by the researchers."

3.3 Methodology Industry Profile

Prior to determining the boundaries of the semi-structured interview, it is necessary to identify the appropriate participants. Secondary source research is commonly recognised as a suitable approach for data collection (Creswell, 2003; Easterby-Smith, et al., 2008; Patton, 2002), with the data directing researcher towards the selection of specific participants (Eisenhardt, 1989; Rouse & Daellenbach, 1999). Furthermore, secondary data collection allows for triangulation of data, by providing evidence from other data sources that coherently justify the themes selected for research (Creswell, 2003; Heaton, 2004; Patton, 2002).

This thesis will draw on a range of secondary resources to gain a broader understanding of the New Zealand merino clothing industry from its inception to its current state. This secondary source research will form an industry profile that identifies the characteristics of the industry's players, as well as establishing a broad direction for the semi-structured interviews.

The secondary sources will be obtained from a variety of secondary source media:

- Databases. Primarily NewzTextPlus which also covers documents from the Newztext Magazines, Newztext Newspapers, Index New Zealand, local newswires and TNS regional and industry sector reports databases. These databases incorporate over seven million documents. Factiva will also be used for current news reports;
- Internet searches. Google is the primary web search engine used. However, further searches will be done within specific newspaper websites such as www.scoop.co.nz and www.stuff.co.nz;
- Corporate Websites. The websites for individual firms will supply comparative data in regards to target audiences, pricing, product numbers, age, and start-up stories;
- Physical advertising and product catalogues, as well as visits to shops, will be used to ascertain the pricing and product numbers if not available online;
- The Company Register (<http://www.business.govt.nz/companies>) will supply details as to firms' number of shareholders and age (since incorporation);

- The Yellow (www.yellow.co.nz) and White (<http://yellow.co.nz/whitepages/>) Pages online websites will also be used for the identification of further firms; and
- Victoria University of Wellington Library's physical journal, newspapers and archives will also be searched for relevant sources and data.

3.4 Output of the Secondary Sources

These sources will be used to assemble an industry profile. The industry profile will be separated into two parts to best identify the development of the industry as well as the important environmental factors and themes. The first part will identify the stages of the industry to date. The second part will draw on Porter's Five-Forces model (Porter, 1980b) to identify the key environmental themes and factors.

The different stages of an industry life cycle (Audretsch & Woolf, 1986; Londregan, 1990), also depicted as the industry evolution in the product life cycle (Karlsson & Nystrom, 2003; Klepper, 1996; Porter, 1980a; Vernon, 1966), have been shown to have associated differences in entry, exit and traits of firms (Karlsson & Nystrom, 2003; Klepper, 1996; Londregan, 1990). The decisions to enter or exit an industry are often directly related to the industry stage, with the numbers of entrants generally increasing during the introduction and growth stages, at which point the number of new entrants begin to decline (Karlsson & Nystrom, 2003; Klepper, 1996). Although various reasons can explain firms' entry strategies, a number of studies have specifically looked at innovation and technological changes as reasons (Karlsson & Nystrom, 2003; Klepper, 1996), whilst others view entry decisions as being based purely on economic profitability (Londregan, 1990; Porter, 1980a). Of utmost importance for this thesis is that the industry stages are recognised as requiring differing strategic decisions and resources (Karlsson & Nystrom, 2003; Klepper, 1996; Londregan, 1990; Porter, 1980a). Londregan sums it up by stating that "at different stages of the of the industry life cycle, different traits are strategically advantageous" (1990, p. 446)

Therefore, the first section of the industry profile will identify the stages characteristic of the industry lifecycle, with each stage further developed to determine the key environmental factors occurring during different time-periods. These will cover the

key relevant government decisions, changes within supporting industries, key trends, and changes industry processes.

The second section will draw on Porter's Five-Forces industry analysis model (Porter, 1980b) to focus on the key industry factors and themes. Porter's Five-Forces model has been used to evaluate the industry environment forces across a varied array of industries, such as the Turkish brick industry (Oral & Mistikoglu, 2007), the Australian real estate valuation industry (Elliott & Warren, 2005), and the effect of technology changes on the tourism industry (Buhalis & Zoge, 2007). Porter's model is, however, not without critique. The forces have therefore been often expanded (Grundy, 2006) and reworked ("A New Model for Strategy and Entrepreneurship in China :Alternative Five Forces," 2009) to best fit the industry under analysis.

The second section explores first the key *supplying* and *substitute* industries, followed by research of the key *buyers*. The *buyers* are researched by their key market segments. This includes the tourism, soft adventure, sustainability and 'lifestyles of Health and sustainability' (LOHAS) target markets. *Competitive rivalry* is developed through development of the industry's value chains and identification and comparison of a sample of current firms. The comparison of current firms identifies the industry segments and the level of competitive rivalry within industry. This provides a clear picture of the current state of the industry. Porter's fifth force, the *threat of new entrants*, is addressed in the first section on the stages of the industry lifecycle.

Chapter 4: Industry Profile – The New Zealand Merino Clothing Industry

The New Zealand merino clothing industry has been around since the early 1980s. Since then, two firms, Snowy Peak and its daughter firm Untouched World (hereafter referred to as Snowy Peak/Untouched World) and Icebreaker, have become the most highly recognised and the most successful, not only nationally, but also within the international industry. Due to this worldwide success, the two firms have become revered as beacons of New Zealand's ability to succeed on the world stage. Their accomplishments have drawn the attention of both academics and governments. This recognition is directed towards both the firms as a whole, as well as the key people within the firm, primarily the CEOs.

Peri Drysdale, CEO of Snowy Peak/Untouched World, founded Snowy Peak in 1981 (Hutching, 1998). She has been publicly recognised by being made a Member of the Order of the British Empire (MBE) for services to New Zealand (Manufacturing and Export) (Major, 2005). She received the North and South Magazine Award for the Top 100 New Zealanders making the largest contribution to New Zealand, as well as North and South Magazine's New Zealander of the Year for 2006 (Untouched-World, 2010a). She received the South Island Business Woman of the Year award and was also awarded an Honorary Doctorate (Commerce) by Lincoln University in 2007 (Untouched-World, 2010a). To top it all off in 2008 she was the Supreme Award winner of the World Class New Zealanders Awards (Untouched-World, 2010a). Furthermore, Drysdale was included within Paul Callaghan's book *Wool to Weta* as one of the examples of innovative New Zealand firms (Callaghan, 2009). Snowy Peak/Untouched World have won the Business Excellence Award, an Export Commendation, New Zealand Sustainable Business Award, the New Zealand Way Award (Untouched-World, 2010c), not to mention they have been accredited to display the United Nations Decade of Education for Sustainable Development logo (Untouched-World, 2010b).

Icebreaker, founded by Jeremy Moon in 1995, has also been highly recognised and revered for its impact on the New Zealand merino clothing industry. Academically, besides being a stalwart of most New Zealand undergraduate business degrees (mine included), the firm has been the focus of two Harvard business cases, one on

Icebreaker's approach to entering the US market, and the second on Icebreaker's decision to enter the Chinese market (Lassiter III & Heath, 2005, 2006). Icebreaker has also appeared in research on the merino clothing's primary supply industry, the New Zealand merino wool industry (Burgess, 2008; Mitchell, Smith, & Dana, 2009). Personal accolades include Moon becoming a Member of the New Zealand Order of Merit for services to business (Churchouse, 2008a) in 2008, as well as being the Chairman of the New Zealand Trade and Enterprise's 'Better By Design' programme (NZTE, 2010).

The result of the high recognition of these firms, together with Moon's and Drysdale's public positions, is that the majority of what is stated about the New Zealand merino clothing industry is based either on one of these two firms or the comments of Moon and Drysdale. For this reason, the industry profile will go beyond just these two firms and will discuss the evolution and current state of the New Zealand merino clothing industry. This industry profile will also be used to validate and compare the findings of the primary source data, which follows.

4.1 Industry stages

This section of the industry profile will identify the three main stages through which the New Zealand merino clothing industry has progressed so far. For each individual stage, the key industry development points and environmental factors occurring will be discussed.

The Industry (or Product) Lifecycle is often defined as four distinct stages (Audretsch & Woolf, 1986; Porter, 1980a; Rink & Swan, 1979), although the number of stages can fluctuate between four and six (Karlsson & Nystrom, 2003; Rink & Swan, 1979). The four stages most often referred to are:

1. Introduction
2. Growth
3. Maturity
4. Decline

However, with new firms still entering at a rather consistent rate the New Zealand merino clothing industry does not appear to be nearing maturity, where new entry

tends to decline and some firms are shaken out of the industry. For this reason, it is apparent that only the earlier stages of the Industry Lifecycle are relevant to the current industry assessment.

These early stages of the lifecycle represent the inception and subsequent growth of an industry. Focusing on these early stages in particular, Scott and Bruce (1987) identified five stages of growth for small businesses. These five stages further defined the earlier stages of the lifecycle leading up to maturity. These stages are defined as:

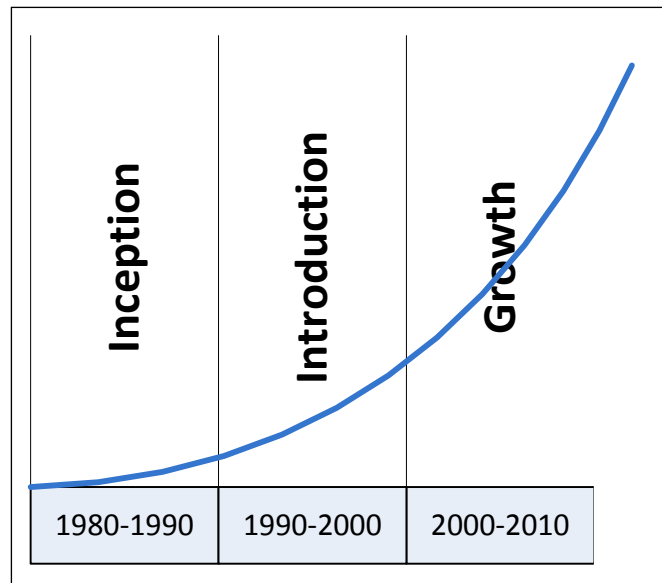
Table 1: Stages of Lifecycle

Stage	Stage of Industry
Inception	Emerging, fragmented
Survival	Emerging, fragmented
Growth	Growth, some larger competitors, new entries
Expansion	Growth, shakeout
Maturity	Growth/shakeout or mature/declining

Source: Scott & Bruce (1987)

Using Scott & Bruce's (1987) stages as a point of reference, it would appear that the New Zealand merino clothing industry has developed to the point of the growth period. However, these labels do not accurately reflect the progression of the New Zealand merino clothing industry. The survival stage in particular would be better seen as an introduction period in the New Zealand merino clothing industry. It is during this time that consumer awareness grew, both for the wool producers in the Merino Wool industry, as well as for the consumers of the Merino clothing industry. The lifecycle stages of the New Zealand merino clothing industry are therefore defined in this thesis as the inception, introduction, and growth stages (Figure 5).

Figure 5: Stages of New Zealand merino clothing industry lifecycle



Each stage of the New Zealand merino clothing industry separates relatively neatly into a ten-year period. The Inception stage spanned the decade from 1980 until 1990 and was a period of technological and governmental change. These changes allowed for the initial development of the industry. The Introduction period, that covered the years from 1990 through to 2000, represents the period that established the industry borders and the key players. The last stage to be covered here in the industry profile is the period from 2000 to 2010. This period represents the growth in the industry with increasing development of the product, customer markets and increase in industry competitors.

Currently it would appear that the growth period is likely to continue beyond the ten-year period used in this industry profile. The continued high number of new entrants in comparison to firms exiting the industry would indicate that the growth/expansion period is still current. It must, however, be noted that a number of firms are starting to leave the industry, whether this is an indication of the entry into maturity or whether it is just the impact of the Global Economic Crisis (GEC) is still yet to be seen.

4.1.1 1980 – 1990: Inception

Technology

In the early 1980s, there was a move towards a new measurement system for wool which would, through the incorporation of computer technology, move the measurement of diameter, weight and colour away from subjective human-based measurement to objective computerised measurement (Walton, 1984). The new measuring systems allowed wool fibres to be graded to specifications that are more precise. For example, the Australian Wool Innovation limited (AWI) categorises wools by their diameter²:

- < 17.5 micron Ultrafine
- 17.6-18.5 micron Superfine
- < 19.5 micron Fine
- 19.6-20.5 micron Fine Medium
- 20.6-22.5 micron Medium
- > 22.6 micron Strong

(AWI, 2010c)

The increased implementation of computerised measurement led to a noticeable and continuous trend in both New Zealand and Australian merino wools towards the production of finer wool (Greer, 2003).

Finer wool, that which is 24 micron and finer, is required for the manufacture of woollen apparel and competes directly with cotton and polyester (Rees, 2010). These grades of wool are produced primarily by Australia, China, and New Zealand (Figure 10, p. 50).

Government

In 1981, New Zealand and Australia signed the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA). This agreement is defined as:

“A non-reciprocal trade agreement in which Australia and New Zealand offer duty-free and quota-free access into their markets for a wide range of goods from Forum Island Countries” (Urwin, 2007).

² Wool is measured in microns (μm), which is one millionth of a metre.

The SPARTECA agreement was then followed shortly after on the 1st of January 1983, by New Zealand and Australia signing and implementing the Australia New Zealand Closer Economic Relations Trade Agreement (otherwise known as the CER agreement). This bilateral agreement allows for goods, which reach a specific level of manufacture within Australia or New Zealand, to be traded free of Customs duty between Australia and New Zealand (www.customs.govt.nz, 2008). The next year in 1984, New Zealand began a series of economic reforms, an event which has been described as “one of the most notable episodes of liberalisation that history has to offer” (Henderson 1995 in Evans, Grimes, Wilkinson, & Teece, 1996, p. 1856).

The 1984 economic reforms led to the deregulation of interest rates, the removal of international capital restrictions, the floating of the New Zealand currency in foreign markets, as well as the removal of the majority of agricultural subsidies, export incentives and tax incentives (Conway & Orr, 2000; Dalziel, 2002; Evans, et al., 1996). Further reforms in 1985 caused the reductions of foreign ownership restrictions (Evans, et al., 1996), the complete removal of import quotas (Dalziel, 2002), and severely reduced tariffs with the intention of complete removal by 2006 (Dalziel, 2002). These actions completely opened the New Zealand economy to international competition, and, as Conway & Orr state,

“eventually transformed the New Zealand economy from one of the most interventionist in the OECD [New Zealand's Economic Reforms: An Assessment], to one of the most open and market-based” (Conway & Orr, 2000, p. 8).

High Level of Competition and Low Barriers to Entry

Apparel and textile industries are traditionally regarded, due to the industry’s low level of technology and capital requirements, as having low barriers of entry (Taplin & Winterton, 2004). Prior to the 1980s, the industries were sheltered from international competition by Government protectionism. However, the 1984 economic reforms, together with the SPARTECA, opened New Zealand’s producers and manufacturers to a level of competition they had never previously experienced. This increase in competition, together with the industries’ low barriers to entry, had many players in the apparel and textile industries fearful of annihilation (Young, 1994), with many describing them as industries upon which “the sun is slowly

setting” (Bruce, 1997). The effects of these reforms included every stage of the merino clothing industry’s value chain, right to the very source of the fibre.

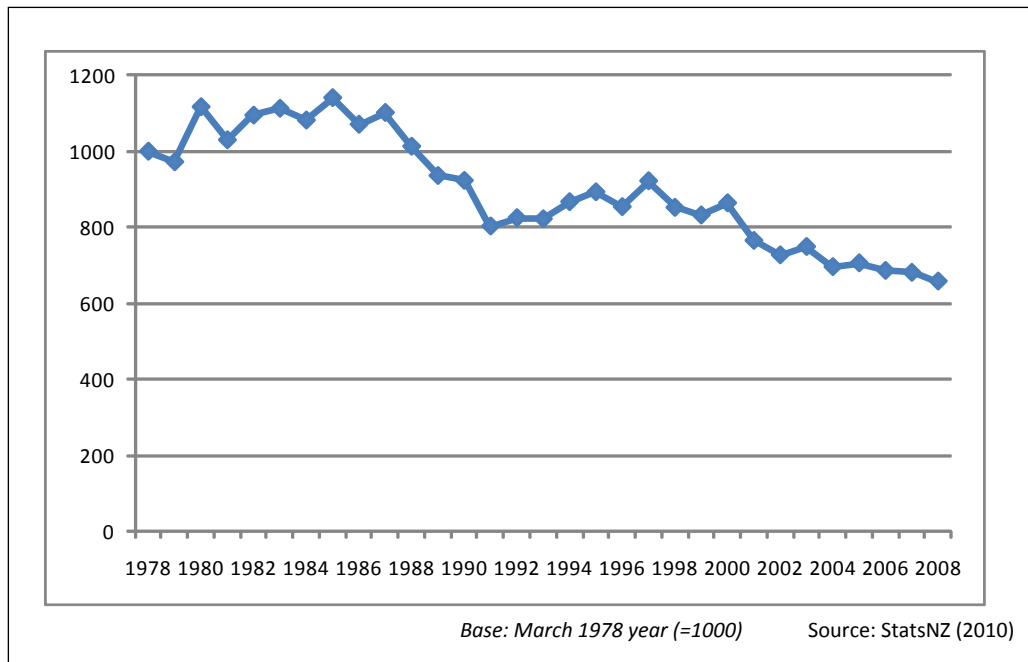
Production

Farmers had no transitional period for the new reforms. Due to uncontrolled cost increases, farmers experienced a 50% drop in land prices, which led to a number of farmers being forced into bankruptcy (Evans, et al., 1996). This led to a sharp decline in livestock numbers, with sheep hardest hit dropping 30% between 1985 and 1995 (Evans, et al., 1996). The decrease in wool had roll-on effects with a number of major closures of New Zealand’s wool mills, such as Feltex (“70 Lose Jobs as Feltex Closes,” 1996), Wanganui Wool Processors (Newton, 1997), and Alliance Textiles’ Milton Plant (Davidson, 1999). The closure of wool mills led to the outsourcing of a number of these production processes (Stephens, 1997).

Manufacture

In the textile and apparel industries, output declined at a rate of 1.4% per year from 1978 to 2008 (Figure 6), driven primarily by decreases in firms within the industry (StatsNZ, 2010a). It is apparent that the industry has struggled to compete in the open market brought about by the economic reforms, with widespread closures of manufacturers in the textile and apparel industries. A selection of major closures include such firms as Longbeach Holdings Ltd (Gee, 1996), Underground Fashions (“Underground to Close Stores,” 1996), Martha Washington Manufacturing (NZPA, 1997), Classic Manufacturing (Ritchie, 2002), L R Wishart (Powley, 2003), Dargaville Clothing Manufacturing (“Jobs Unstitched as Factory Closes,” 2000) to name a few. The South Island in particular was especially hard hit with 79 cutbacks or closures recorded between 1981 and 1993 (Bruce, 1997). The removal of jobs saw employment in the industries drop from 30,939 in 1985 to 17,770 in 1996 (Bruce, 1997). The loss of jobs has led to fears within the industry of losing the skilled staff and talent indefinitely (Catherall, 2001; Gee, 1998; Howie, 1995).

Figure 6: Output Measure Index – Textile and Apparel Manufacturing



Cost cutting and efficiencies were forced upon the firms within the textile and apparel industry, causing many firms, particularly small to medium sized Cut Make and Trim (C.M.T.) firms, to struggle to adapt to the new environment (Edlin, 1997). The changes in the manufacturing and production segments led to many firms having to turn to outsourcing and/or importing materials to survive the changes (Bruce, 1997; Edlin, 1997; Gee, 1998).

4.1.2 1990 – 2000: Introduction

1989 – Mid 90s: The Retail Segment

The removal of the tariffs and licensing not only led to cheaper exporting and importing of materials and processes but also to an increase in cheaper clothing imports (Agee, 1994; Bruce, 1997; Young, 1994), increasing from \$129 million in 1989 to \$616 million in 1998 (Catherall, 2001). Although imports increased from low-cost producing regions, and particularly in Asia, cheap imports from Fiji were noticeable (Bruce, 1997). Starting with an increase from \$397,000 to \$2.7 million between 1987 and 1988 ("Fiji Clothing Trade Soars," 1989), Fijian imports have continued to grow, climbing to \$51.5m in 1990 (Bruce, 1997).

On the back of the ability to import cheaper goods, major changes occurred within the New Zealand apparel retail industry. One of the most fundamental changes was the introduction of 'Big Box' retailers such as The Warehouse and Briscoes (Keane, 1998). Chain stores, such as The Warehouse undercut the low-middle income bracket of the apparel industry with a high volume cheaper quality and cheaper priced product.

At the higher end of the market, Australian-based retail outlets were using the CER agreement to enter the New Zealand market, with stores such as Katies, Sportsgirl, Just Jeans, Portmans, Sussan and Country Road, all key entrants in the mid-1990s (Gee, 1998; Swain, 1996b; Young, 1994). These chain stores, with higher economies of scale, have filled prime retail real-estate in town centres and large shopping malls (Gee, 1998; Swain, 1996b).

The increase in low cost imports and the competition brought about by the 'Big Box' stores and Australian-based chain stores have led to an environment in which local retailers and manufacturers have had to either export or outsource (end product or production processes) (Bruce, 1997; Edlin, 1997) or focus on niche markets (Law, 2008; Young, 1994).

1992: Farm to Garment

One niche marketing approach was the integration of the value chain from farm to garment. This practice first appeared in 1992 when Peter Redford of the North Canterbury Mt Arden Sheep station approached manufacturers directly rather than through the traditional auction sales. Radford was offering to contract the next three years of Mt Arden's 17-micron merino wool clip by way of a forward contract. Glengyle Knitwear's Wayne Ashworth saw the opportunity in both Radford's 17-micron wool (Kerr, 1994) and the forward contract.

The forward contract allowed Glengyle to fix the supply costs for three years, allowing in turn a fixed retail price. This is important for the apparel industry where customers will not accept prices fluctuating seasonally due to supply prices ("Spinning a Yarn about Fine Merino," 1994). Likewise the forward contract also provided Radford a guaranteed price for his wool ensuring more predictable forecasting ("Spinning a Yarn about Fine Merino," 1994).

The contract provided further benefits through the forming of a closer relationship between the farmer and buyer. This relationship encourages the grower to be more aware and attendant to the buyer's needs (Kerr, 1994). In this case Radford modified his practices around shearing and classing to ensure the right fleece was supplied to Glengyle ("Spinning a Yarn about Fine Merino," 1994). This provided Glengyle not only a higher quality product, but also a stronger control on quality assurance in general.

The close relationship, together with the awareness of where the wool supply is coming from, allowed Glengyle to connect the Highland range product to the Mt Arden story. To ensure the story was clearly presented to the end consumer, the key retailers of Glengyle products were also taken to the Mt Arden station to see first-hand where the garments originate, with the station featuring prominently within the marketing brochure attached to each product (Kerr, 1994).

This event marked one of the key evolution moments in the industry, forming the blueprint for future forward contracts, such as Icebreaker's much touted historic contract to purchase 10% of the New Zealand Merino Company (NZM) Merino clip ("Merino Contract Makes History," 2005). It has also formed the basis for future accreditation systems, such as the NZM's Zque™ accreditation (Grigg, 2007; Jones, 2010; Zque™, 2011) and Icebreaker's 'Baacode' (Slade, 2009). The use of forward contracting as the preferred sale option is increasing, and it will likely continue to do so. Although it provides benefits for both the buyer and the seller through ensuring a sustainable price, and with it stability, for the length of the contract (Burgess, 2008; Mitchell, et al., 2009), the use of forward contracting is also present in Australia and as such is not a uniquely New Zealand industry trait.

1994: The New Zealand Merino Company

Prior to 1994, Australia's, New Zealand's and the other member countries' wool were marketed and sold under the International Wool Secretariat's (IWS) Woolmark Brand (McArthur, 1981). The IWS, which was founded and funded by its member countries (New Zealand, Australia, South Africa and Uruguay), marketed each countries wool products relative to their contributions (Burgess, 2008). With Australia as the major contributor to the IWS (70%), New Zealand wool growers felt that their wool product was not gaining the marketing it deserved, but rather that it was being lost in

increasingly Australian focused marketing (Burgess, 2008). Although the feeling of dissatisfaction became apparent in 1981, it was not until 1994 that the New Zealand Merino Growers broke away from the IWS and formed their own 100%-grower-owned industry body: Merino Inc. (Burgess, 2008).

In 1995 the NZM was established as a 50:50 joint venture between Merino Inc. and PGG Wrightson (a New Zealand based agricultural service provider) (Stephens, 1995). NZM was responsible for the marketing, selling and research and design for the Merino wool industry (NZM, 2006b). In the following year the Merino Brand, three gold pillars rising with a stylised swirl on a royal purple backdrop (Figure 7) was released with the phrase: 'New Zealand Merino the World's Most Exclusive Fibre' (McLean, 1996). NZM markets around 85% of the New Zealand Merino wool clip (Mitchell, et al., 2009), with the wool being sold around 50:50 auction/forward contracts (Burgess, 2008), though as mentioned earlier the use of forward contracts is increasing. Around 88% of the New Zealand Merino clip is sold to overseas buyers (Greer, 2003).

Figure 7: The New Zealand Merino Company Merino Logo™



4.1.3 2000 – 2010: Growth

International Sourcing, Increasing Competition and Commoditisation

In the early 2000s, a range of retailers entered into the New Zealand merino clothing industry. These new entrants included a number of established clothing chains, as well as established sports clothing chains.

Around 2002 Kathmandu entered the Merino clothing industry with a merino range from a generic merino fabric. They have since formed their own fabric in collaboration with a fabric manufacturer (Brocket, 2010). In 2004, Hallensteins followed suit, with a new label called Scott Base. Incorporating merino wool into the range, it aimed for differentiation through its support of the Antarctic Heritage Trust (Hallensteins, 2004). Merino clothing ranges are now available from nearly every

clothing chain, from higher end fashion clothing chains such as Country Road (AU), Witchery (AU), and Barkers (NZ), to mass market lower priced options such as Ezibuy, Farmers, and Glassons.

This increase in competitors has led to one of the most fundamental changes in the New Zealand merino clothing industry, that is, from New Zealand manufacture to internationally sourced production and manufacture. Icebreaker began the outsourcing of production in 2002 (Medcalf, 2005), followed relatively quickly by Macpac, Fairydown, and Kathmandu (Sell, 2005). In 2005, Swannndri, a firm that is strongly tied to New Zealand, also made the move to Chinese production ("Swanny off to China," 2005). In addition to the need for economies of scale to compete in this environment, for the majority of these firms, enhanced production technology and geographical position were the key determinants for the move. For example Moon, CEO of Icebreaker, argued that the apparel industry in New Zealand is typically one to two decades behind the rest of the world and, due to the lack of capital investment, it was not likely to improve, and hence they outsourced to gain access to technology not available in New Zealand (Medcalf, 2005). Drysdale's decision in comparison illustrated a situation that occurred whilst supplying to the developing LOHAS consumer segment in Germany. Drysdale stated that Snowy Peak started to lose sales after the customers realised that the product was being air shipped into Germany (Hoyle, 2008). Meeting these customers' expectations led to the necessity for geographical proximity within the LOHAS market.

Even with the perceived benefits of international sourcing, a number of firms have remained New Zealand made, incorporating the place of manufacture into the firm ethos. Chalky Digits and Tika Merino are notable examples of this approach, although there are a number of smaller boutique and market place (or cottage industry) enterprises, which have also remained New Zealand made. Glowing Sky, which was founded on Stewart Island, defined their place of manufacture even more specifically and initially advertised as being Stewart Island made. However, since expanding onto the South Island, Dil Belworthy (owner of Glowing Sky) says one of his favourite lines is 'we are not New Zealand made, we are South Island made' ("Quarter of Clothing Jobs Saved in Buy-up," 2008). A number of these smaller

enterprises, however, may have remained in New Zealand more from necessity of size, rather than from choice.

Properties

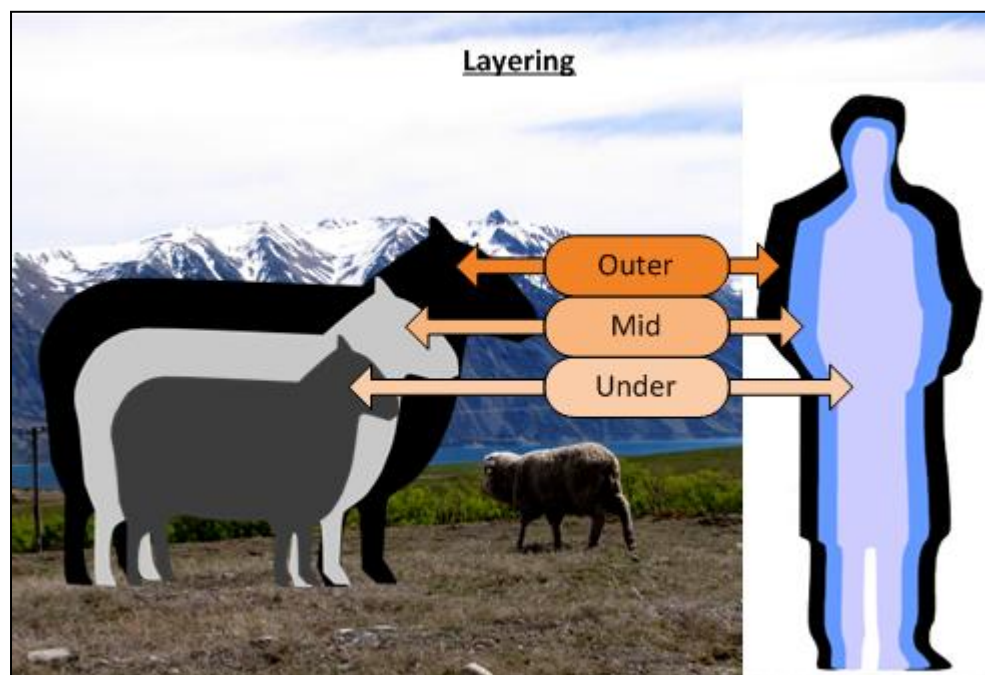
The smaller firms though have been benefiting from the advertising and educating of the customer carried out by the earlier entrants into the industry. The high level of marketing carried out during the development and introduction stages by firms such as Icebreaker and Snowy Peak/Untouched World, as well as the NZM, has led to high public awareness of merino wool and its associated properties. However, with the growth of the industry, the dispersal of fabric technology, and the low barriers to entry, a blurring of differentiation between premium brands, such as Snowy Peak and Icebreaker, and the cheaper alternatives has likely occurred. The consumer education carried out by the key players has successfully differentiated merino wool from the coarser wools and synthetic fabrics, however, it has not developed the fact that merino wool comes in differing grades of quality. This has led to the word ‘merino’ becoming associated with the properties of the high quality wools used by the premium brands, without necessarily providing the properties of these high quality brands. These properties include:

- The micron size, which accounts for the merino clothing non-itchy attributes (Bain, 2000; Kirk-Anderson, 2005);
- An anti-microbial property (Birchfield, 2000; Donaldson, 2006), which allows for merino’s non-odorous ability;
- Machine washable (Bain, 2000; Morrison, 2000a) and hence easy care;
- Heat modulating (exothermic) (Bain, 2000) – the ability to keep you warm even when wet. Wool has an exothermic property which releases warmth once the material is wet; and
- The product’s weight. This property has no consistent measurement across the industry. Two of the most common descriptors are the ‘superfine – fine’ in place of a micron measurement, often matched together with a ‘Grams/Square Metre’ (gsm) as seen with both Untouched World (www.untouchedworld.com) and Icebreaker (www.icebreaker.com). These weights are commonly grouped into layer groups, a concept strongly marketed by Icebreaker.

Layering

Building on the intrinsic properties of merino wool, Icebreaker developed advertising drawing on the layers of wool produced by a sheep. Figure 8 illustrates the style of advertising, which Icebreaker pioneered. This advertising draws comparisons between the fine micron under layer wool and the outer thicker micron wool and Icebreaker's merino clothing range (Icebreaker, 2011b). This multiple layered aspect formed a strong 'add on' sale approach (Mulhern & Padgett, 1995; Walters & MacKenzie, 1988), where the claim that each layer would work together to perform better encourages the customer to purchase multiple layers. Icebreaker's layering approach has gone through a number of evolution to continue to lead the marketing trend – for example their layers were called under, mid, and outer (Icebreaker, 2007), compared to today's Activebase, Bodyfit200+, Sport320 Insulation layer, City260 Insulation layer, and, still, the Outer Layer (Icebreaker, 2011a).

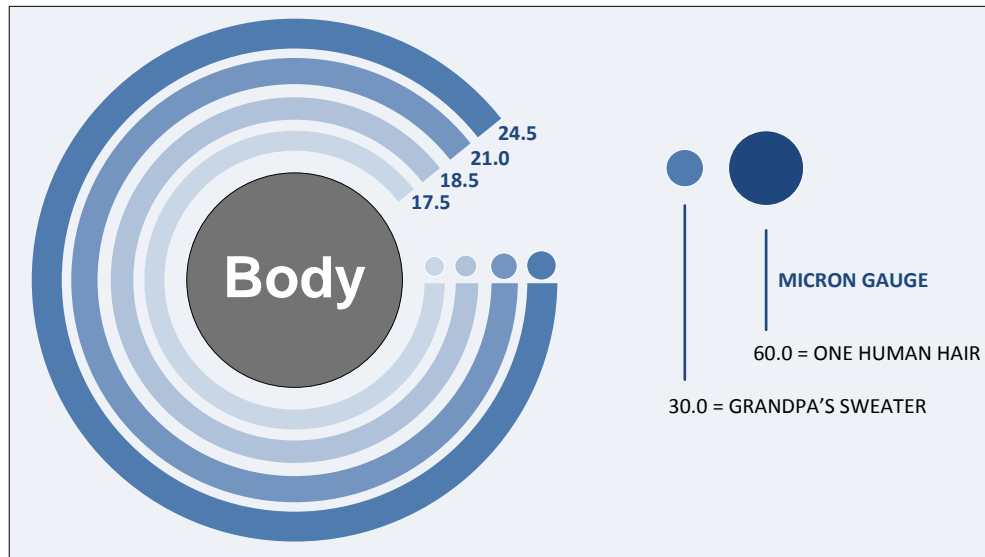
Figure 8: Layering



However, Icebreaker's marketing of the layering qualities of merino products has quickly spread and can now be found throughout the broader clothing industry (Carrington, 2004). 'Layering' has become, to a certain extent, a stalwart of the merino clothing industry. Layering advice is found not only on New Zealand Merino firms' websites, such as Mihi Merino (Mihi, 2010), Glowing Sky (Glowing-Sky, 2010), and Aquamerino (Aquamerino, 2010), but is also appearing on international

websites. For example Ibex Outdoor Clothing (Ibex, 2011) uses both the layering concept as well as the specific micron measurement for each layer's wool. Figure 9 illustrates the style of advertising used.

Figure 9: Layering Ibex



4.1.4 Design

The relative spread of the differentiating features of merino wool and merino wool clothing products across the industry, and the ease at which they are picked up and utilised by new entrants and established competitors, indicates the limited advantage these 'differentiators' offer firms. Therefore, to differentiate the product and the firm within the industry, design of product and brand has risen in importance.

It is clear from the media sources that Snowy Peak/Untouched World has invested heavily in its design capability. When Drysdale decided to launch Untouched World she hired a global brand manager from Japan, a specialist in design, marketing and promotion from Italy and an American who had helped develop leading outdoor clothing companies (Hutching, 1998; Light, 1999). However, to differentiate the range around the world, 25% of the collection is made by New Zealand designers (Light, 1999), one of whom is Drysdale's own daughter, award-winning designer Emily Drysdale ("Untouched World to Open in Christchurch," 2004). Drysdale states that the strength of design relies in knowing what will work commercially, and as such retains control of the design, through controlling the design briefs and "tweaking the designs so they are acceptable to the market" (Hutching, 1994).

Icebreaker's CEO Moon has a similar approach to Snowy Peak/Untouched World. From the very beginning of the firm, Moon employed the help of brand strategist Brian Richards to help develop the brand and design direction of the firm (Morrison, 2000b). Since that time, Moon has been very vocal in defining 'Icebreaker'. The following statements made by Moon in the media clearly show the focus of Icebreaker on design of the brand and focus on creativity:

"It is a marketing company, not a manufacturer" (Morrison, 2000a).

"Even though our clothing has strong sense of style and identity, we are not a fashion brand" (Kirk-Anderson, 2005).

"We creatively put together other companies to create the right infrastructure to build what we want. If we want something built, we don't go out and buy a whole lot of machines – we find companies and put them together and make it happen through them" (Birchfield, 2000).

As with Snowy Peak/Untouched World, changes in Icebreaker's designers are mentioned in the media. For example the hiring of Alison Blain in 2000 (Morrison, 2000a), Duncan McLean joining Icebreaker in 2004 (Enting, 2004), and then in 2007 the notable mention of Icebreaker's increasing global presence with the design team in Portland, USA (Gadd, 2010a; Icebreaker Moving U.S. Offices to Ore.," 2007).

Further to Icebreaker's clear focus on design and creativity, Moon was also active in promoting the importance of design for New Zealand's economic growth. Moon holds an advisory position on the board of the 'Better by Design' programme, a government taskforce which aims to help New Zealand businesses form competitive advantage through world-class design (Kirk-Anderson, 2005; www.betterbydesign.co.nz, 2011b). On the 'Better by Design' website, Moon states that design is the "the key to unlocking the future business potential of New Zealand" (www.betterbydesign.co.nz, 2011a).

A more recent approach to gain design capabilities is the collaboration between merino firms and fashion designers. One successful example of this approach is the collaboration of the fashion designer Andrea Moore and knitwear firm Silverdale ("Collaboration Breeds Success," 2007; Fielding, 2008). The collaboration has been

very successful on a global level with interest shown by Russian stockists ("Moore Line Piques Russian Interest," 2009).

Although design offers a differentiation for the firm, Drysdale critiqued other New Zealand producers as lacking the innovative skills to form new and original ideas (Stock, 2004). This comment came on the back of realising that seven companies were copying both her fashion designs as well as her Snowy Peak fabrics, Merinomink™ (a possum/merino blend) and Mountainsilk™ (100% merino fabric) (Stock, 2004). However, as 'Better by Design' explain design extends beyond just product design but also includes every aspect of business:

"Design unlocks better business – better thinking, better approaches, and better customer connections." (www.betterbydesign.co.nz, 2011c)

4.1.5 Summary

The above lifecycle analysis has explored the main events and developments that have influenced the development of the New Zealand merino clothing industry so far. The industry profile has shown that the industry is currently in the growth stage (Scott & Bruce, 1987). In keeping with Scott and Bruce's (1987) characteristics of the growth stages, the above lifecycle has indicated that the New Zealand merino clothing industry currently holds a number of established firms, whilst also experiencing increasing numbers of new entrants. Likewise, the increasing development of the product and the growing complexity of the value chain are also concurrent with the growth stage (Scott & Bruce, 1987).

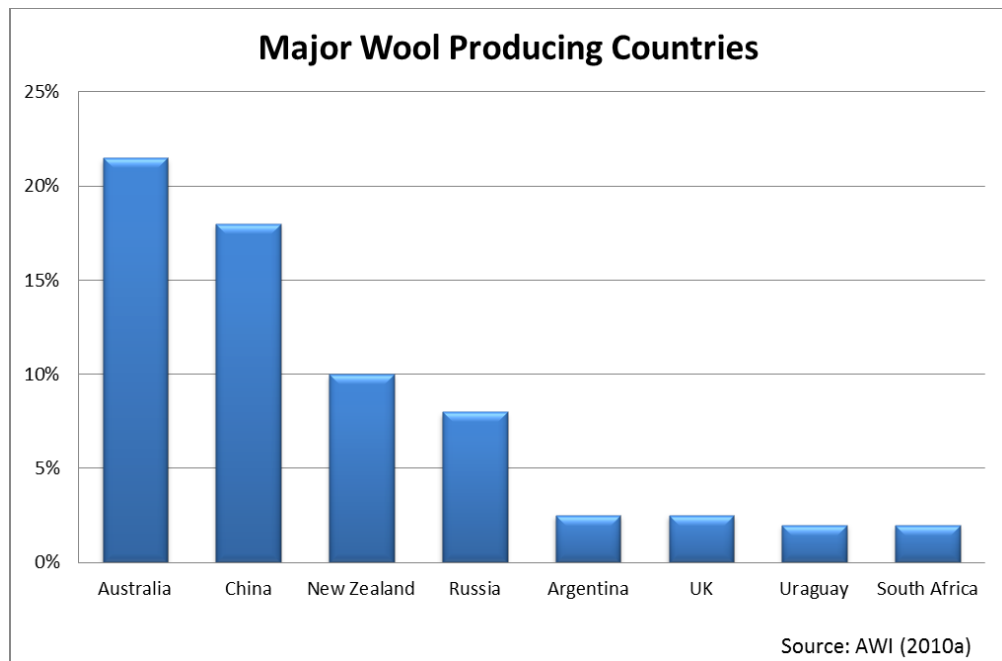
4.2 Industry Analysis

This next section will further examine the current state of the industry by considering the remaining four of Porter's Five Forces, those of suppliers, substitutes, buyers, and competitive rivalry. Each of these forces will be investigated in turn. This section will finish by exploring a number of the industry's participants. These firms will be used to illustrate the niches and related industry segments currently present in the New Zealand merino clothing industry.

4.2.1 Suppliers

In 2009, apparel wool accounted for approximately 552 thousand tonnes of the world's wool production (Rees & Kim, 2010). Australia, the world's largest producer of wool, with around 3.4 million tonnes in 2009/10 (Rees, 2010), led the world in the production of apparel wool, with apparel wool accounting for 90% of Australia's wool production (Erlikon, 2010). China, which has the highest sheep population in the world, at 120 million sheep (AWI, 2010b; Erlikon, 2010), produces primarily coarse wool of 25+ microns (Rees & Kim, 2010). Although they do classify around a third of their wool as 'fine wool', only a small amount, around 18,000 tonnes of merino-style wool, is comparable to the quality of Australian merino wool (Longworth, Brown, & Waldron, 2005). New Zealand, the world's third largest producer of wool, produced only around 0.12 million tonnes of clean wool in 2009 (Erlikon, 2010). However, similar to China, apparel wool accounted for only approximately 10.4% of the total clip, or 16,432 tonnes (M&WNZ, 2010).

Figure 10: Major Wool Producing Countries – 2010



Merino Wool

Pure merino wool, as used in the merino clothing industry, is currently only being produced by New Zealand and Australia in any quantity. However, New Zealand's pure merino wool production is only approximately 9,000 tonnes compared to Australia's 300,000 tonnes (Major, 2005). This production accounts for

approximately 5% of New Zealand's exported wool by weight, though 10% by value (Greer, 2003). Approximately one eighth of the merino wool grown in New Zealand makes its way into the local woollen textile sector (Burgess, 2008).

Both the NZM and the Australian Wool Innovation Limited (AWI) (the Australian equivalent of NZM) primarily aim to compete on quality. However, both companies present the characteristics of pure merino wool as the key selling point. These include, but are not limited to, whiteness, strength, breathability, environmentally sustainable, and performance (AWI, 2010a; NZM, 2006c). It is however clear that there is no observably distinguishable difference between the two countries' merino wool, with the two generally on par with each other in regards to these qualities (Mitchell, et al., 2009). NZM, to differentiate their wool further, offers an accreditation scheme called Zque™ (Major, 2005).

“Zque™ fibre combines natural performance wool with an accreditation program that ensures environmental, social and economic sustainability, animal welfare (non-mulesed³) and traceability back to the source” (Jones, 2010).

This accreditation is openly available to both international and domestic firms, with the transparent supply-chain assured by accreditation offering a strong marketing angle for their products. In New Zealand, a number of firms were quick to get behind the scheme, whilst internationally the scheme has been well received with firms such as Smart wool (US), Rede (IT), John Smedley (UK), NIKKE (JP) and Aquascutum (UK) all now requiring Zque™ accredited suppliers (Grigg, 2007). However, since the inception of Zque™, Australia has also followed suit, with both AWI and The Merino Company (Tasmania) offering similar assurances and accreditation. This leaves the production difference between the two as the main competitive strength for Australia.

In addition to the strong competition from across the Tasman, New Zealand merino wool also faces increased competition from the improving quality of Chinese merino-style wool (Longworth, et al., 2005), as well as the use of 'generic merino' (merino

³ Mulesing is the practice of surgically removing or cauterising the folds of skin around the sheep's anus to restrict wool growth (Wallace, 2008).

with no clear ‘country of origin’ or blended wools) in a number of international and lower-end clothing labels. When these competitive factors are combined with the range of cheaper and more readily available synthetic and natural substitutes, it becomes clear that New Zealand merino is only a small player in a very large and highly competitive fibre industry (Figure 11).

4.2.2 Substitutes

World Fibres

Natural fibres, such as cotton and wool, were once the most produced fibres in the world. However, since 1991 their production has been overtaken by increases in the synthetic fibre one (Erlikon, 2010). Although in 2009 it could be said that natural fibres accounted for just over a third of the world’s fibre production (by weight), this representation is due entirely to cotton accounting for 33% of the world’s fibre production (Erlikon, 2010). Other natural fibres, such as silk (0.102MT), hemp (0.053MT) (Erlikon, 2010), and bamboo⁴ are at such insignificant production levels that do not yet make any major impact on the world’s natural fibre production levels. Wool, on the other hand, is currently the second largest natural fibre produced, but only accounts for 2% of the world’s fibre production (Erlikon, 2010). The 2% equals a total production of approximately 1.1 million tonnes, of which only 552,000 tonnes (1% of world fibre production) is of apparel grade wool (Erlikon, 2010). In comparison polyester, the leading synthetic fibre at 47% of world fibre production, equals approximately 31.9 million tonnes (Erlikon, 2010).

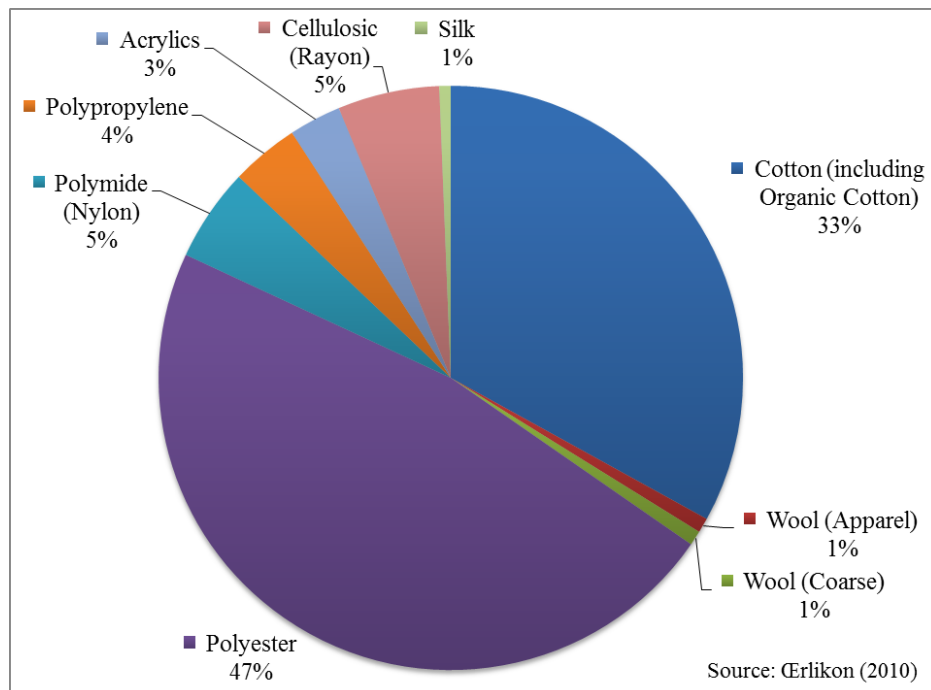
Synthetic substitutes are not only cheaper to produce than natural fibres (Table 2) but also offer a further benefit in that they are unaffected by seasonal and weather changes (Erlikon, 2010). It is therefore not surprising that natural fibres have fallen behind synthetic fibres in regards to world production. However, even under this pressure from synthetic fibres, there has been a noticeable increase in the production of cotton and silk, with both continuing to grow since 1991 (Erlikon, 2010). Wool, on the other hand, has trended the other way, with world wool production decreasing every year since 1990 (Erlikon, 2010). Wool dropped from 5% of the world’s fibre

⁴ Bamboo, as well as other natural woody sources (such as wood chips), are chemically treated to form man-made cellulosic fibres such as viscose, rayon or TENCEL® (Erlikon, 2010) which share few traits with their original natural materials (Binkley, 2009).

production in 1991, to the aforementioned 2% in 2009 (Erlikon, 2010). Figure 11 indicates wool's position in relation to the rest of the world's fibre production (by weight).

Combining the world's fibre production by weight data, with a multitude of secondary sources (Asiantex, 2010, 19 July; EIU, 2010; LME, 2010; Loh, 2010; Erlikon, 2010; N. Peng, 2010) (Table 2) a purely illustrative⁵ diagram (Figure 12) is possible. This illustrative graph indicates the difference between relative percent by weight with relative percent by value. Interestingly, world fibre production by value does show a change in percentage for a number of natural fibres (Figure 12). Although not substantial enough for natural fibre to surpass synthetic fibre, it is noteworthy that two natural fibres do show a clear increase in representation. Silk, which did not even reach 1% of the world's production by weight, accounts for 4% of the world's fibre by value. Likewise, wool, coarse and apparel combined, only comprised 2% of the world's fibre production, increases substantially to represent 6% of the world's fibre production by value.

Figure 11: World Fibre Production by Weight (%) – 2010

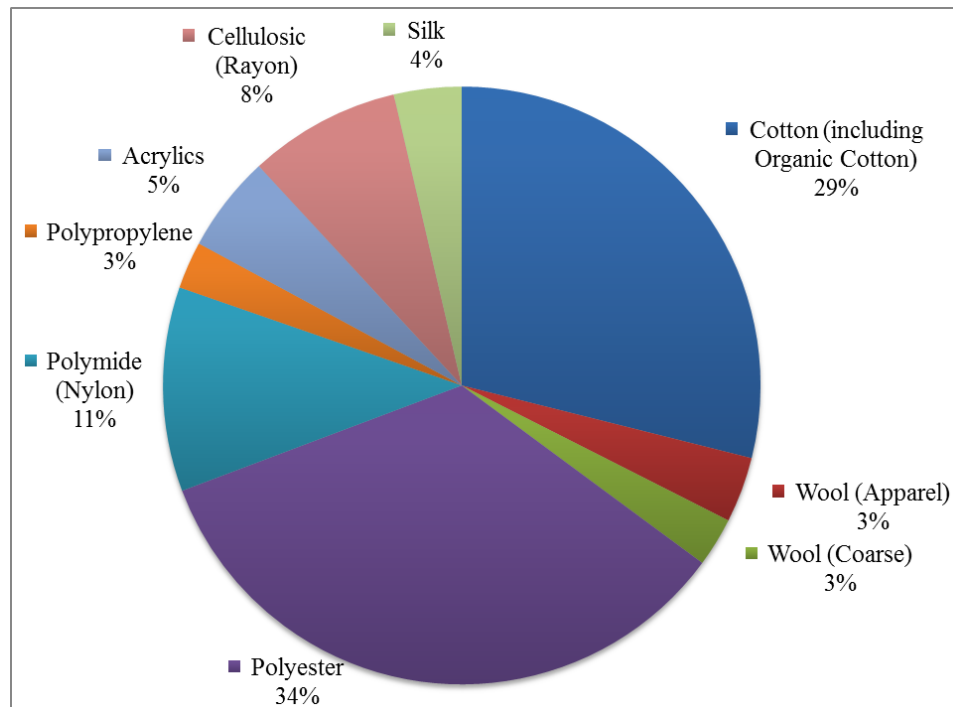


⁵ Given the multitude of sources and hence different currencies and price/weight measurements, the diagram can only be used for illustrative purposes and should not be seen as entirely accurate.

Table 2: World Fibres by Value (USD/KG) – 2010

Fibre	Price (US\$) / Kg	Source
Cotton	1.6	(Erlikon, 2010)
Wool (apparel wool)	7.93	(EIU, 2010)
Wool (coarse)	6.00	(Rees, 2009)
Silk	44.25	(N. Peng, 2010)
Polyester	1.32	(Asiantex, 2010, 19 July)
Polymide (Nylon)	3.91	(Loh, 2010)
Polypropylene	1.24	(LME, 2010)
Acrylics	3.32	(Asiantex, 2010, 19 July)
Cellulosic (Rayon)	2.67	(Asiantex, 2010, 19 July)

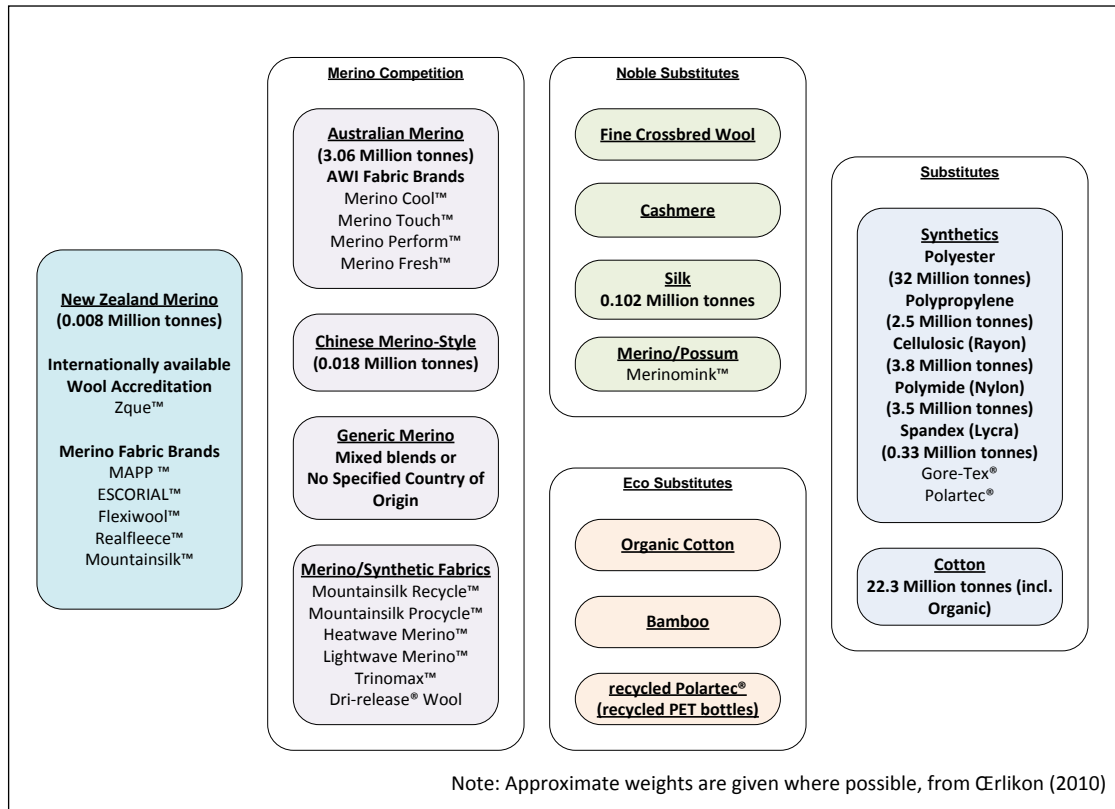
Figure 12: World Fibre Production by Value (%) – 2010



This jump in percentage indicates the relatively valuable nature of wool fibre. It has been argued that availability of wool, and its demand, is influenced by the disparity between the production level of wool and other substitutable fibres (Burgess, 2008; Greer, 2003). Australia and New Zealand, however, have both opted instead to add value to their wool through alternative approaches, rather than be price takers dependent upon market forces. Both Australia and New Zealand merino wool companies, such as the NZM and AWI, as well as some of the larger merino clothing firms have invested heavily in the research, design, and protection of new fabrics

formed with merino wool. The following figure illustrates the vast array of competing fabrics, as well as substitutable fabrics, currently present within the wider apparel and textile industry (Figure 13).

Figure 13: Summary of Competing and Substitutable Fibres



4.2.3 Buyers

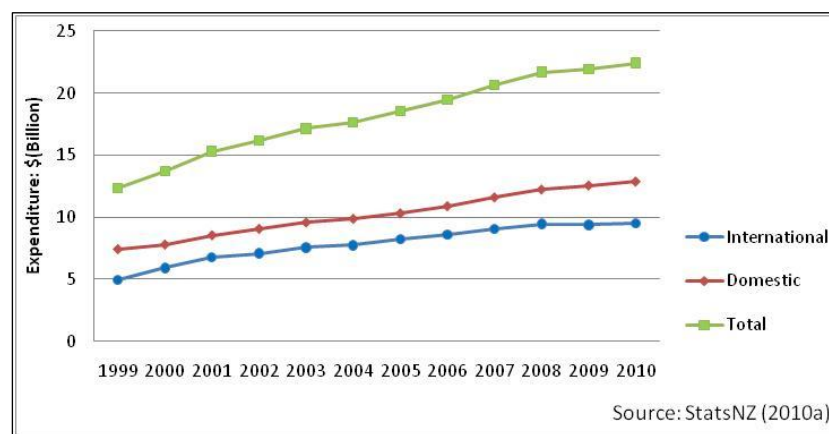
Since the inception of the New Zealand merino clothing industry in 1980, four key target markets have emerged: tourism, soft adventure, sustainability, and fashion. However, among these markets only tourism, soft adventure, and sustainability are raised specifically in relation to the New Zealand merino clothing industry. The fashion industry itself is too broad and changeable as a target market to be fully specified here. Fashion is by its definition specific to a particular time and cyclical in nature, made to suit a particular customer, for a particular situation (Sproles, 1981). Although a number of fashion designers and houses specifically use merino wool, these firms will logically face a number of similar issues and have a number of similar customers as those within the New Zealand merino clothing industry.

Tourism

Since the inception of the New Zealand merino clothing industry, tourism has been a key market segment. In 1981, Drysdale's initial intention for Snowy Peak was to enter directly into export markets. However, on New Zealand Trade and Industry advice to establish a New Zealand market first, Drysdale instead approached Christchurch souvenir shops (Brett, 1999). From this auspicious beginning, Snowy Peak and Drysdale's second label Merinomink (a Merino/Possum blend) have continued to focus on international markets through both tourism and export (Light, 1999). The tourism market has continued to grow consistently since 1980, coupled with the total of visitors arriving in New Zealand increasing at an average rate of 5.5% (Figure 14) (StatsNZ, 2010b). It is therefore not surprising that tourism has remained a key target market for the merino clothing industry. However, within this broader tourism market segment two clear evolving opportunities are apparent.

Even though international tourist expenditure has exceeded that of any other export group since 1995 (Edlin, 1999), domestic tourism expenditure has noticeably exceeded that of international visitors since 1994, with domestic tourism expenditure in 1994 accounting for around 54% of total tourism expenditure (Kaye, 1994). However even with the higher expenditure, domestic tourism has been described as the 'red-haired step-child' of the industry (South, 2007) with few approaches presently towards supplying directly to the domestic tourists' needs (Reich, 2007; South, 2007).

Figure 14: Tourism Expenditure by Type: 1999 – 2010



Further to the domestic and international differentiation of tourists, New Zealand is also attracting a niche tourism market, that of eco-tourism. Eco-tourism covers a range of tourism experiences, consisting of nature, heritage, cultural connections as well as ‘soft adventure’ (“Eco Tourism: Facts and Figures,” 2010). Eco-tourism is, compared to mass tourism, a boutique, environmentally sustainable alternative tourism market (Haas, 1997). Eco-tourism has been growing at 20-30% a year since the early 1990s (McManus, 1999), around three times faster than the tourism industry as a whole (“Eco Tourism: Facts and Figures,” 2010).

Soft Adventure

‘Soft adventure’, in relation to fashion, emerged in the 1990s. A fashion trend of ‘cross-over’ occurred, in which clothing used for one lifestyle was incorporated into another; most relevantly in this case ‘outdoors’ into ‘city living’ (Swain, 1996a). This specific fashion segment came to be known as ‘soft adventure’, catering for “those with an outdoor philosophy who also live an urban lifestyle” (“Cool Wool,” 1996, p. 9). This trend in fashion had Swandri (one of New Zealand’s oldest clothing labels), appearing on ski fields in Europe, as well as on the European cat walks (Sheeran, 1997; Stuart, 1996). Building on this interest in their wool, Swandri in conjunction with Alliance Textiles (a New Zealand based manufacturer), produced a new merino based fabric called Flexiwool™ (“High Merino Thermo Rating,” 1996). Released in 1996, the new products were found to be more fashionable than the traditional synthetic ‘soft adventure’ clothing, which had controlled the segment since the 1980s (Sheeran, 1997).

Many firms had also seen the opportunities for a natural substitute in the ‘soft adventure’ market. Icebreaker from the outset of entering the market in 1997 specifically targeted the ‘soft adventure’ market. This specific focus on the ‘soft adventure’ market was based on the higher participation level, as Moon (CEO of Icebreaker) explains:

“[In] the US there are two million people who go climbing ... and 35 million nature walkers – that is the difference between hard and soft adventure”
(Moon, as cited in Teutenberg, 1997, p. 39).

Swanndri's and Icebreaker's success within this market led other well-established soft adventure firms such as Macpac and Earth Sea Sky follow suit by expanding their product ranges to deliver merino clothing as well.

Snowy Peak also saw the benefits of the 'soft adventure' segment and in 1998 released what they called New Zealand's first global lifestyle brand – Untouched World. This new brand broke away from Snowy Peak's traditional tourism market. Building on the perceived connection of New Zealand to nature, Untouched World has continued to expand and, although it still contains a large segment of soft adventure wear, now includes a full wardrobe ("PM Supports Kiwi Fashion in Australia," 2002). This new brand was presented as a 'sustainable fashion and sportswear brand based on the New Zealand lifestyle' (Untouched-World, 2010c). Untouched World's explicit focus on a broader sustainability was a first within the New Zealand merino clothing industry.

Sustainability

In 1974, Patagonia (at the time named 'Chouinard Equipment') was one of the first outdoors companies to raise the issues of the impact of humans upon the natural environment, stating:

"No longer can we assume the Earth's resources are limitless; that there are ranges of unclimbed peaks extending endlessly beyond the horizon. Mountains are finite, and despite their massive appearance, they are fragile"
(Chouinard & Frost, 1974).

Although the values of sustainability have remained a key focus within Patagonia throughout its existence ("Our Reason for Being," 2011), it was not until more recently that sustainability became more commonplace. Sustainable development was defined by the World Commission on Environment and Development Brundtland Report in 1987 as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland, 1987, p. Chapter 2:1).

Since the 1987 Brundtland report, sustainability has become legitimised through the formation of international and local initiatives and business networks. For example the International Council for Local Environmental Initiatives (ICLEI) founded in

1990 provides consultation and information services for over 1200 local government members, including 12 New Zealand City Councils (ICLEI, 2008). Additionally in New Zealand, the New Zealand Business Council for Sustainable Development and the Sustainable Business Network both work to supply information, consultation, and leadership for businesses working towards sustainable development. These organisations, although focused on aiding and supporting businesses in becoming more sustainable, also help educate the public in relation to issues surrounding sustainability as well as to which firms are seriously intent on sustainable business practices. Sustainable Business Network's sustainable business awards are a good example of this public recognition. At the inaugural sustainable business awards in 2003, Snowy Peak were runners up for their integrated approach to the environment ("Snowy Peak Leading the Way in Sustainable Business," 2003).

LOHAS

One of the most prominent markets emerging from the increased awareness of sustainability is the market for 'Lifestyles of Health and Sustainability' (popularly known as LOHAS), also referred to as 'Cultural Creatives' (Ray & Anderson, 2000). Evolving out of the German BIO movement, the LOHAS segment has its roots in the USA (Anon., 2007). The LOHAS market for 'sustainable' goods and services was determined to include around 50 million people in the USA (approximately 25% of the USA's population) ("Top SI Business Woman Supports Sustainable No-GE NZ," 2003), and around 90 million in Europe (Allen, 2006). The USA market alone is valued at around \$230 billion (Cortese, 2003; Tafler, 2000; Top SI Business Woman Supports Sustainable No-GE NZ," 2003), the market however is also growing in Asian countries (Allen, 2007) and in 2000 was worth around \$546 billion (US) worldwide (Tafler, 2000). The LOHAS market in New Zealand is also growing and it was estimated to include around 26% of the population in 2006 (Allen, 2006) and then around 33% in 2008 (Paterson, 2008). Consumers within the LOHAS market tend to be well informed, globally aware, discerning, ecologically and spiritually aware, and sceptical of advertising claims (Cortese, 2003; Paterson, 2008). This high level of sophisticated awareness forms the fundamental challenge presented by this market. Just saying that a firm is sustainable is no longer enough, firms need to substantiate not only the ethical and sustainable aspects of the firm itself, but also every aspect of its value chain (Major, 2005).

To assure that each stage of the value chain meets these requirements, a number of merino clothing firms have linked their final product to a specific farm to illustrate the origins of their wool. The practice started by the Glengyle/Peter Radford combination, mentioned earlier (1992: Farm to Garment, p. 41), has led to a number of approaches and accreditation schemes. The most relevant accreditation to the New Zealand merino clothing industry is the use of NZM Zque™ wool, which offers a clear and transparent value chain from the grower through to the garment (Zque™, 2011). However, its availability to international competitors, such as John Smedley and Ibex (NZM, 2006a) has seen companies such as Icebreaker expand on the Zque™ accreditation and form their own customised systems (Slade, 2009). Icebreaker offer further proof of their sustainability through their ‘Baacode’ system, even though their wool is forward contracted from Zque™ accredited farms. The system supplies the consumer with a code that allows the consumer to trace the product back through the entire value chain to the sheep farm from which it came (Churchouse, 2008b; Slade, 2009).

Untouched World has also embraced the Zque™ wool. However, like Icebreaker, it has also added further differentiation. In 2000, Untouched World formed the ‘Untouched World Charitable Trust’, which has the mission

“to play a leading role in the creation of a world where each individual's full potential is realised while assisting the planet to sustain its ability to support current and future generations” (Untouched-World, 2010b).

Through the work of the Charitable Trust, Untouched World gained the endorsement of the United Nations Educational, Scientific and Cultural Organization, giving Untouched World the right to use the United Nations Decade of Education for Sustainable Development Education logo on its products (Hoyle, 2008).

4.2.4 Competitive Rivalry

The Value Chain

The basic value chain from the raw wool through to the selling of the garments involves four broad categories (Figure 15).

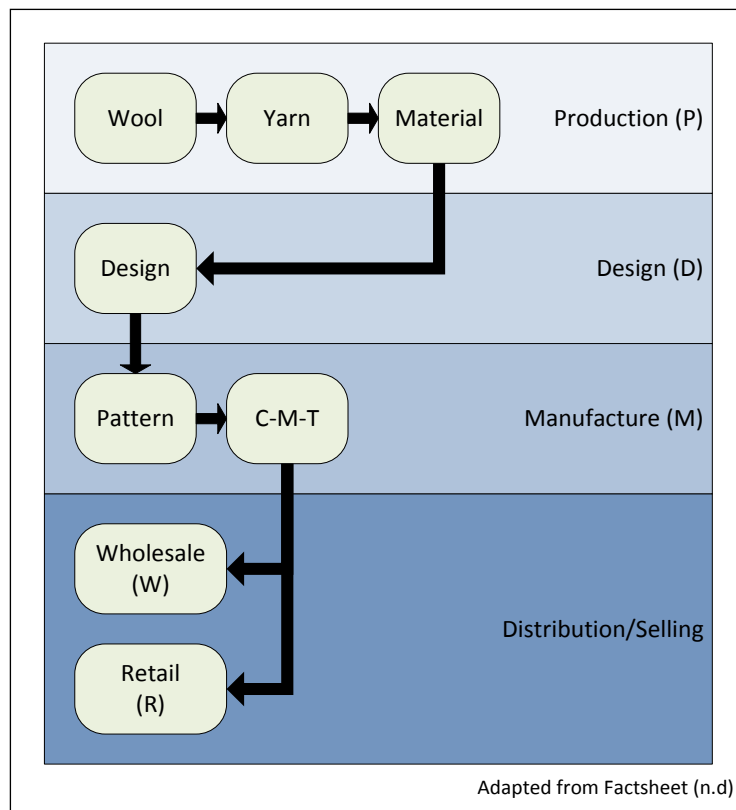
Production (P) contains all of the stages needed to reach the point of having a fabric with which to manufacture clothes. The production stages are primarily carried out by knitting and weaving mills. These mills have traditionally only offered open manufacture (manufacturing for other companies); however, today the majority has diversified into designing and manufacturing their own labels in addition to open manufacture.

Design (D) is often carried out internally by the majority of firms, although a number of larger chain stores, such as Hallensteins and Farmers, contracts the design aspect out (Young, 1994).

Manufacture (M) covers the two key stages in apparel manufacture of pattern making and the Cut, Make and Trim (C.M.T.). These stages are present in a number of firms within the New Zealand merino clothing industry. Snowy Peak/Untouched World for example still has a limited amount of New Zealand based manufacture; however, currently most firms that retain ownership of these processes are small 'village-market' based enterprises. For the majority of New Zealand based firms though, these processes are done by contractors either in New Zealand or offshore.

The final stage of the value chain is the selling of the garment. This stage can either be carried out through **wholesale (W)** (sell through other retailers), **retail (R)** (control the selling of the garments internally) or a mix of both. All of these approaches to selling are present within the New Zealand merino clothing industry.

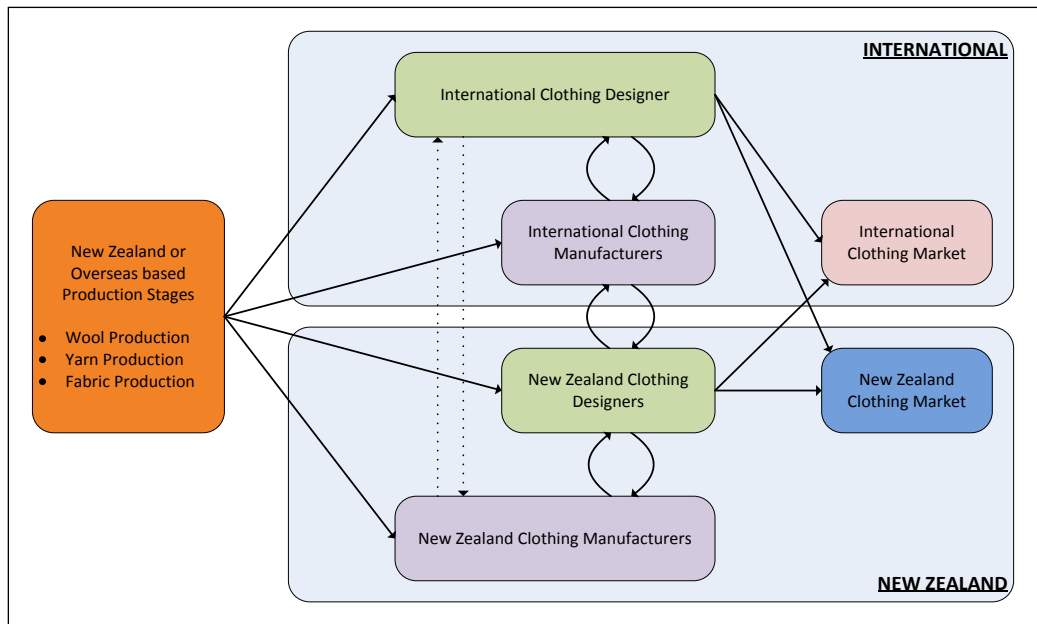
Figure 15: Merino Clothing Industry Value Chain



Apart from the knitting mills, the majority of firms will only ‘own’ a mix of the last three stages. Likewise, each and any of the stages can be outsourced, whether to New Zealand or offshore. All of the mixes and outsourcing choices are present within the New Zealand merino clothing industry. For example, Icebreaker is a Designer, Wholesaler, and Retailer (D-W-R). These stages are carried out in multiple countries, with the manufacture outsourced to businesses external to the firm (Icebreaker, 2011c). In comparison Earth Sea Sky is a Designer, Manufacturer, and Wholesaler (D-M-W), with all manufacture and design carried out in New Zealand and their clothing sold through retail stores throughout New Zealand and Australia (Sky, 2011).

The differing levels of ownership of value chain stages, coupled with the suppliers in the production stages impartial supply between domestic or international firms, has led to a variety of convoluted industry value chains. Figure 16 shows the possible value chains from New Zealand merino wool production through to end markets. A possible relationship between New Zealand Manufacturers and International Clothing Designers is marked with a dotted line, though evidence of this relationship was not available.

Figure 16: Value Chains of the New Zealand Merino Clothing



4.2.5 The Industry Segments

Rivalry is not limited to companies that focus purely on merino products but also includes the multitude of firms, which include merino products within their broader apparel lines. These firms although not specific only to the New Zealand merino clothing industry cross over into it hence adding to competitive rivalry. To gain a clearer understanding of the competitive rivalry information was sourced from a sample list of firms. This information was gained by visiting stores, researching firms' catalogues and websites, as well as by direct requests for information to firms, which were geographically distant from Wellington and did not have the information available online. Information in regards to the firm's age, country of origin, place of manufacture, where their wool is sourced from, as well as the number of products in their range was collected. The next table (Table 3) presents the information for the New Zealand owned firms, with the following table showing the characteristics of the international firms (Table 4).

Table 3: New Zealand-Owned Firms

Name	Formed	Country of Origin*	Place of Manufacture*	Wool Source*	Number of Products
Hallensteins	1873	NZ	PRC	AUS	10
Glassons	1900	NZ	PRC	AUS	11
Swanndri	1913	NZ	PRC	NZ	17
Silverdale	1946	NZ	NZ/PRC	NZ	57
Barkers	1972	NZ	NZ/PRC	NZ	6
Macpac	1973	NZ	PRC	NZ/ AUS	25
Shanton	1976	NZ	PRC	NZ	32
Ezibuy	1978	NZ	PRC	AUS	62
Snowy Peak Ltd.	1981	NZ	NZ/PRC/IN/PT	NZ	33
Private Collection	1982	NZ	NZ	NZ	129
Kathmandu	1987	NZ	PRC	AUS	19
Earth Sea and Sky	1990	NZ	NZ	NZ	27
The Wool Company	1995	NZ	NZ	NZ	46
Icebreaker	1995	NZ	NZ/PRC	NZ	138
Just Country	2001	NZ	NZ	NZ	13
Chalky Digits	2001	NZ	NZ	NZ	35
Pure local	2002	NZ	NZ	NZ	30
Tika	2006	NZ	NZ	NZ	23
* AUS = Australia, IN = India, NZ = New Zealand, PRC = People's Republic of China, PT = Portugal					

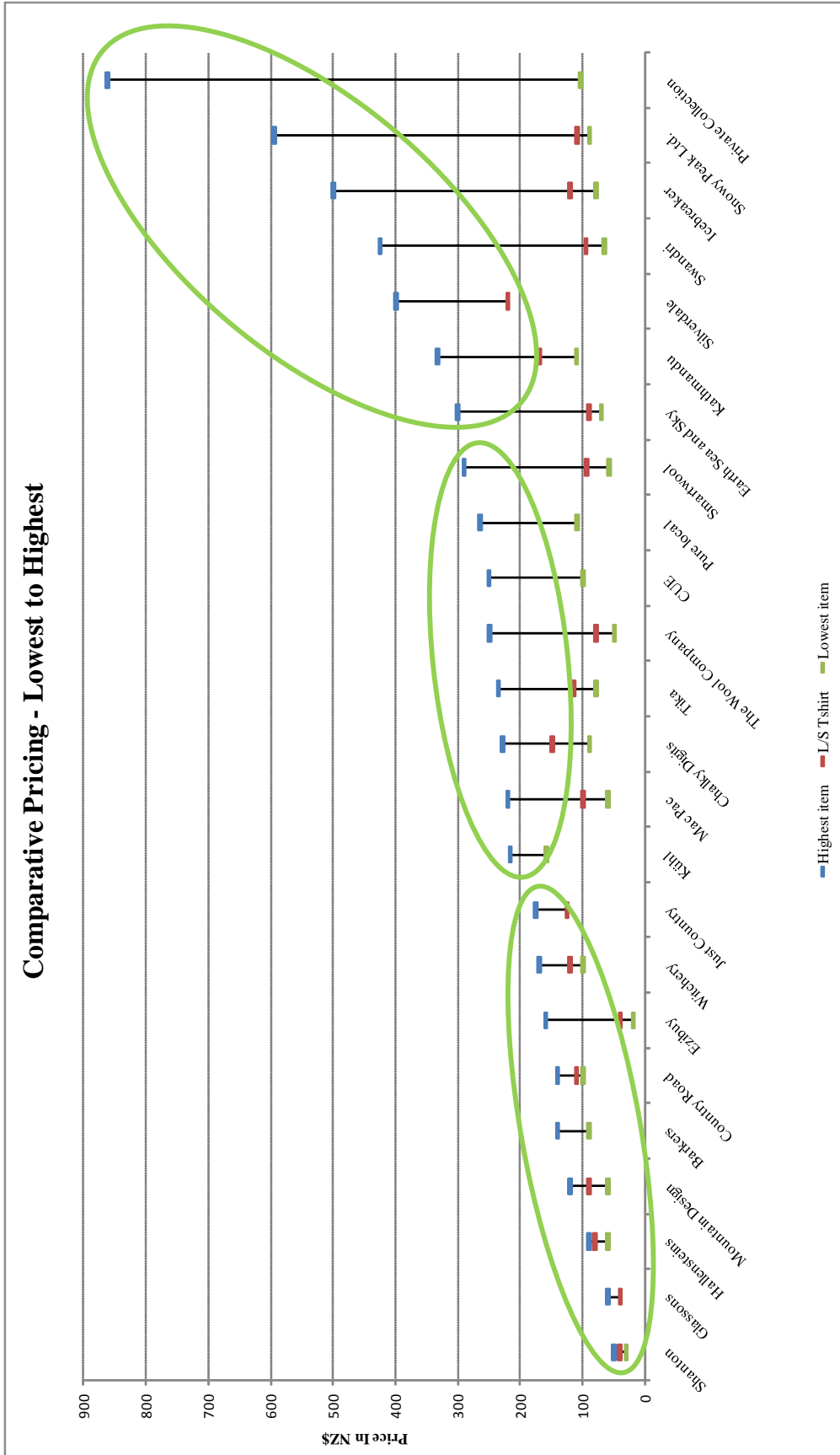
Table 4: Internationally-Owned Firms

Name	Founded	Country of Origin*	Place of Manufacture*	Wool Source*	Products
Witchery	1940	AUS	PRC/AUS	AUS/NZ	16
CUE	1968	AUS	PRC	AUS	limited runs
Country Road	1974	AUS	PRC	AUST	12
Mountain Design	1975	AUS	FJ	NZ	5
Kühl	1990	USA	PRC	GENERIC	9
Smartwool	1995	USA	USA/PRC/HK/ VN/KO	NZ	96
Ibex**	1997	USA	USA/FJ/PK	NZ	115
* AUS = Australia, FJ = Fiji, HK = Hong Kong, KO = Korea, NZ = New Zealand, PK = Pakistan, PRC = People's Republic of China, VN = Vietnam ** not currently in NZ					

What is clear from these tables is that the industry has had a high number of long-established apparel firms enter. This would imply a number of new entrants from the wider apparel industry are likely to have a higher level of resources available in comparison to those start-ups entering directly into the industry. This suggests that there would be a high level of competitive rivalry within the industry. For example, even though Icebreaker and Snowy Peak/Untouched World are seen as the leaders in the New Zealand merino clothing industry, a number of the firms, which have later released merino ranges, have similar levels of reputation for design and quality.

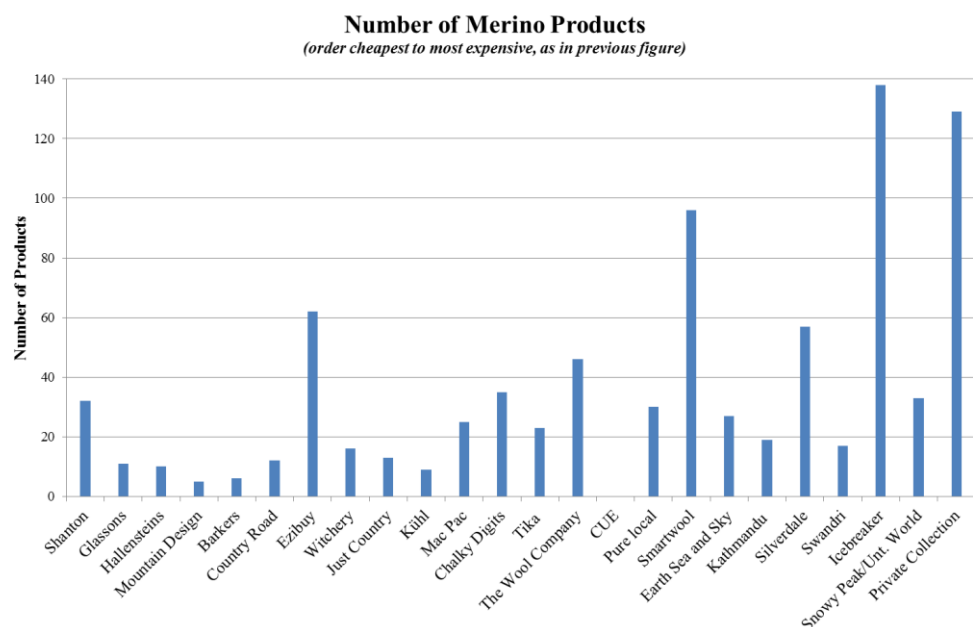
Interestingly when this sample of firms is compared against their highest pricing, the industry separates into three rather distinct price segments. These can be defined as Low Cost (\$0 – \$200), Average Cost (\$200 – \$400), and High Cost (\$400 – \$900).

Figure 17: Comparative Prices – Lowest to Highest Price



Although the industry can be separated into pricing segments, it is apparent that the place of manufacture, the source of the wool, or even the number of merino wool products in the firm's range does not affect the final pricing of the product. When the data for the source of wool, as well as the place of manufacture (Table 3, Table 4) is compared against Figure 17, it is clear these factors are rather evenly spread within the industry. Likewise, as the following graph indicates (Figure 18), the number of merino apparel products for each firm is relatively well spread, although slightly higher within the 'High Cost' segment.

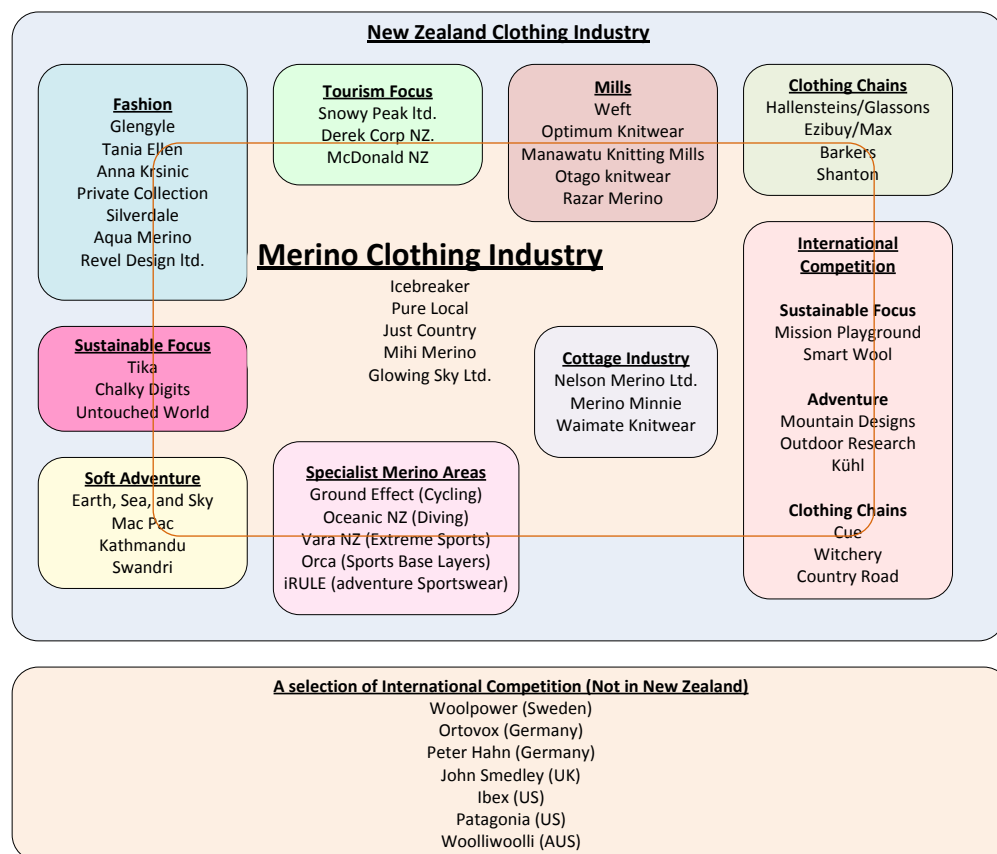
Figure 18: Number of Merino Products



The above information indicates that the New Zealand merino clothing industry has a high level of competitive rivalry. The wide range of similar approaches across the industry makes it difficult to ascertain which resources might enable differentiation within the industry. The traditional differentiators of the country of manufacture and country of origin of the material are diluted within the high number of competitors. Although the industry does seem to segment into three groups based on price, these differentiators are well represented within each. Furthermore, as a number of these firms clearly compete in clothing industries beyond merino, for example Hallensteins, Ezibuy, and Kathmandu, the above information indicates that some firms will also be influenced by industry and macro forces beyond those specific to the merino clothing industry.

To determine the range of industries overlapping with that of the New Zealand merino clothing industry, further information was gleaned from other secondary sources. The figure below (Figure 19) illustrates a selection of industries that overlap the New Zealand merino clothing industry and the broader clothing industry. Also included in the diagram is a selection of international firms, which are actively using and selling apparel of merino wool. Although these firms are not yet actively selling in the New Zealand industry, a number of them specifically use New Zealand merino wool and integrate the story of New Zealand merino into their firm's ethos, such as Ibex – the Vermont, USA, based outdoor clothing company (Ibex, 2010). The presence of these firms outside of the New Zealand industry represents potential new entrants for the New Zealand markets, as well as a barrier for New Zealand based firms entering into international markets.

Figure 19: Crossover Segments of the New Zealand Merino Clothing Industry



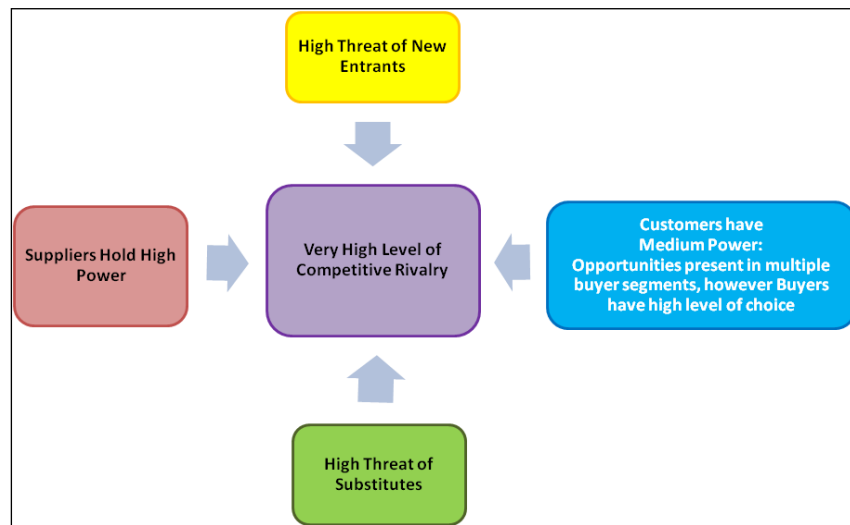
The firms and segments presented here are by no means an exhaustive list but purely indicative of the complexity of the New Zealand merino clothing industry.

Furthermore, the measurements of pricing, source of wool and range of products will not be explicitly analysed in conjunction with the primary research data. This is to preserve the confidentiality of the participants. However, the participants will be selected across the full range of the typologies encountered here, that is from each of the price segments (Figure 17) and to cover as many of the industry segments (Figure 19) as possible.

4.3 Industry Profile: Final Analysis

The industry profile explored the context in which the participating firms interact. This section draws together the information found in the secondary resources presented in the industry profile to form an analysis of the current state of the industry. This will be done with the use of Porter’s Five Forces framework. Overall, this framework highlights that the industry is facing the following situation, presented here in Figure 20.

Figure 20: Five Forces Analysis



4.3.1 Competitive Rivalry

In New Zealand the merino clothing industry has a very high level of rivalry. The industry has a high number of competing firms, with limited potential of differentiating each firm through a unique business model or resource bundle. Furthermore, the notable approaches with which to differentiate the product are easily imitated. As discussed in the literature review, if a resource is imitable then the resource is not likely to be the foundation of a competitive advantage (Barney, 1995).

Although the presence of a high number of firms does not necessarily mean a high level of rivalry, it is apparent within the New Zealand merino clothing industry that the high numbers of firms are dispersed across all areas of a competitive industry with significant overlap in pricing. Significantly, the firms in the industry are also evenly spread across the three price ranges indicated on Figure 17. The high number of participants in each price segment makes it more challenging to differentiate a firm through the use of pricing strategies. Product differentiators are also evenly spread across the industry with the properties of merino wool and the layering of the garments now utilised by the majority of the firms. This leaves the design of both the product as well as the business model, as the primary factor of differentiation. There is a broad mix of rivals, ranging from established firms from other clothing industry sectors through to new start-ups solely focused on merino, with high numbers of firms in each range. These age ranges traditionally correlate to firm size, with the more established firms having a larger resource base on which to draw.

Furthermore, the industry profile indicates that there is an extensive range of materials and places of manufacture currently present. The large variety of value chains being utilised make identifying and establishing a unique approach more difficult. This is further complicated by the fact that the merino clothing industry overlaps with a number of clothing industry sectors, which has led to a number of new entrants coming into the industry with a variety of resources to draw upon. For example, chains stores such as Kathmandu and Hallensteins now carry their own brand of merino, as well as the increased presence of specialist sport clothing firms. These firms are entering the industry already recognised in their specific industry segments, with established reputation and legitimacy. This spread of firms with different abilities and resource bases means that new firms entering the industry from scratch potentially start at a competitive disadvantage.

Overall, it is clear that the combination of a high number of competitors with low levels of differentiating properties, the New Zealand merino clothing industry contains a very high level of competition.

4.3.2 Threats to Entry

The capital outlay to enter the industry is relatively low and there is very little technical knowledge required to enter. Additionally the range of value chains mentioned above allows firms with low start up resources to follow lower cost value chains and, as their resources or capabilities increase, they can then increase the level of their value chain with few incurred costs by, for example, using a more expensive fabric or supplier.

Indeed, it is clear in the industry profile that the number of firms entering the industry is still increasing. Overall, this industry has very few barriers to deter new firms from entering, indicating a high threat of new entrants.

4.3.3 Supplier Power

New Zealand produces a relatively small quantity of New Zealand merino wool, with the majority sold overseas. As mentioned in the industry profile, international companies such as Smart wool (US), Rede (IT), John Smedley (UK), NIKKE (JP) and Aquascutum (UK) are purchasing New Zealand merino wool. As New Zealand merino wool is valuable and holds a niche position ranked alongside the noble fibres, it is clear that the woolgrowers are in a strong position.

Further to the supply of the raw wool, changes in the New Zealand economic environment have led to further challenges in the supply industries involved in the production and manufacture value chain stages. As seen in the life cycle, with the opening of the economic environment a large number of production and manufacture suppliers either closed down or moved offshore. This has led to a smaller number of firms in New Zealand that are able to carry out these processes. For this reason, the New Zealand merino clothing firms now have less choice and control of which suppliers and manufacturers they use. Overall, this leaves the New Zealand merino clothing industry in a generally weak position to influence or react to changes in the supply industry. Given their buyer power, Snowy Peak/Untouched World and Icebreaker would be likely exceptions to this.

4.3.4 Substitutes

Although synthetics do present a substantial substitute, they cannot be sold under the name of ‘merino.’ In this regard, the more important substitute is the greater number of products with unspecified grade and quality of merino wool. The industry profile identified how merino wool comes in a variety of grades and blends, and as such, a number of the brands do not specify the micron, weight, or country of origin of the fabric. This style of wool fabric often does not retain the properties of higher quality merino fabrics, which are made from a consistent micron range. However, the cheaper fabrics are still marketed as merino products, with the customer often unaware that the garments are a substitute for premium merino wool products.

However, the merino clothing industry does not operate in isolation and as such, any other form of clothing is a potential substitute. This leaves the New Zealand merino clothing industry positioned in the wider New Zealand clothing industry, where overlaps occur with other clothing industries, such as the sports clothing industry and fashion industry. Each overlap of industries leads to a more diverse range of environmental factors and a wider breadth of competitors.

In general, given the significant number of substitute products and substitute industries, the industry profile indicates that the merino clothing industry experiences a high level of threat from substitutes.

4.3.5 Customers

Three key customer segments were clearly identified within the secondary sources. They were tourism, soft adventure, and sustainability. From these markets, tourism and sustainability in particular offered an increasing market opportunity. Although tourism is a traditional market for the merino clothing industry, it is clear that this market is still growing. Likewise, the slightly newer sustainability market and the specific LOHAS customer are recognised in the secondary sources as an extremely valuable and growing market.

Both of these opportunity markets align well with the qualities of the New Zealand merino clothing industry. The merino wool story is closely aligned with the attributes of New Zealand and as such makes it a sought after item for tourists. This likely explains why it has been a focus for the industry since its inception. Furthermore, the

merino clothing industry is able to connect the merino product to the perceived 'clean green' attributes of New Zealand. In this connection with the 'New Zealand Story', the merino clothing industry is able to place itself in a strong position in relation to the substitutes mentioned above. This story though is available to both domestic and international firms, indicating that these opportunities may be short lived or well fought over.

The New Zealand merino clothing industry, with its legitimate claim to the New Zealand story, is well positioned to fight for the opportunities that are emerging out of the customer environment.

Chapter 5: Methodology Primary Research

This chapter continues to employ the same fundamental methodological basis as described in Chapter 3.2. However, drawing on the industry profile (Chapter 4), this chapter further develops the research questions, as well as defining the methodological approach for the primary research.

5.1 Research Questions

The industry profile provides a good understanding of the competitive nature, some of the key resources and areas of differentiation currently present in the New Zealand merino clothing industry. Traditionally this information would aid in the production of a broad survey instrument with which to survey either a large number of firms at differing stages of the industry's lifecycle or specific high performing firms. However, as was explained in Chapter 3, this research aims to determine an understanding in which the participant's perspectives can be ascertained in more depth. This will help in understanding not only how the industry is perceived by the different participants, but also determine if different levels of awareness exist between the industry participants. Drawing then on the points raised in Chapter 3 (Heaton, 2004; Patton, 2002), the primary research section of this thesis will employ semi-structured interviews. Semi-structured interviews will allow an understanding in regards to a number of specific areas, whilst also exploring the perspective of the interview participant (Yin, 2003). This approach will also enable the researcher to engage in an interview process, whereby the interview may evolve in relation to themes and ideas raised by the interviewee (Easterby-Smith, et al., 2008).

The interviews will try to answer the following questions:

- **Which resources and capabilities do the industry participants recognise or identify?**

Through open-ended questions, the resources and capabilities, which each participant deems to be most important or influential for their firms, will become apparent.

- **Which factors or themes are the industry participants aware?**

Not all resources and capabilities mentioned by a participant will necessarily be a resource or capability that the participant's firm holds. However, the mention of it will indicate a level of awareness in regards to this resource or capability. Such a mention may indicate resource challenges or a desired strategic direction of a firm.

- **How is the competitive environment perceived by its participants?**

To be able to explore possible sources of competitive advantage it is important have an awareness of who the competition is, and how these competitors are perceived. Likewise a number of themes will likely be raised which have nothing to do specifically with a resource or capability, but the awareness of the theme will indicate an awareness of the wider industry environment.

- **To what extent do the participants hold a homogeneous or heterogeneous level of industry knowledge?**

The use of secondary sources to form the industry profile (Chapter 4) identified a number of factors that impact upon the industry, however they do not allow for understanding as to how or even if these factors are perceived by participants within the industry. This question will connect the industry profile with the primary research to illustrate the difference between traditional survey instruments and qualitative research collection.

5.2 Data Required

As this research is specifically aiming to gain comparable data from the participants, whilst gaining the participants perspective of the industry, a certain level of structure is required. The interviews will begin with structured questions and then progress into open-ended questions. Although this progression will not be explicitly communicated to the participant, the interview will advance through three categories of data collection. These themes are succinctly described here; however, more in-depth development follows.

The first category of data is the descriptive data from which comparisons can be made between the externally visible characteristics of the firms. These characteristics will

be queried through use of a questionnaire and specific questions at the beginning of the interview.

The second category of researcher-generated themes will ensure that key themes from the literature review and industry profile are covered. As these themes are in themselves rather broad, they will be asked in the way of open-ended questions with specific mention of the theme.

The final category of data to be collected are the interviewee-generated themes. As this category specifically aims to explore the perception of the interviewee, any prompting will avoid asking in regards to specific resources, capabilities, or awareness. Prompting will only be given in broad terms or in relation to events from the firm's history, ascertained by prior research into the firm.

5.2.1 Descriptive Data

Three approaches will be used to ascertain the descriptive data. Prior to meeting for the interview, information will be gathered from secondary sources. This will include information from the company register, media reports and from the firm's websites or other online sources, such as reviews and blogs. The secondary source data will also help validate the accuracy of the answers supplied from the interview; as the interviewer will be aware of the broad state and history of the firm. Before beginning the interview, each interviewee will be supplied with a questionnaire, which asks for specific firm attributes, such as founding date and size (Appendix A: Information Sheet). At the very beginning of the interview, specific questions will be asked that require more development than single facts, figures, or yes and no answers which the questionnaire covers (Appendix C: Company Detail Sheet). The descriptive data set will consist of:

- Size
- Value chain integration
- Age of firm
- Experience (prior)
- Target Market
- Distribution – Wholesaler vs. Retailer
- Branding

5.2.2 Researcher-Generated Themes

The researcher-generated themes will be incorporated into the interview by asking open-ended questions in relation to specific subjects (Appendix D: Interview Outline). Three broad themes developed from the literature review (Chapter 2) and the industry profile (Chapter 4) will be raised in this section. The first theme will determine the participants' perception of competition within the environment. This theme will consist of how each participant perceives competition as well as whom the participant perceives as their key competitors. Given Icebreaker and Snowy Peak/Untouched World pre-eminence within New Zealand, they are likely known to each of the participants and as such offer a directive example without introducing bias to the question.

The second theme will look at the resources needed for entry into the industry. These resources will not be directly queried but will be possible example themes to an open-ended question. This non-specific approach will allow the participant to either engage with the theme or not, as the case may be. The themes presented will be the human resources and the financial foundation of the firm. The human resources theme will initially further develop the aspect of size, as determined in the descriptive data section. The financial foundation of the firm will query the source of funding for the founding of the firm.

The final theme that will be asked to each participant will be in relation to the goals and aspirations of the participants, in terms of their personal goals as well as the goals for the business, should these differ.

5.2.3 Interviewee-Generated Themes

This section is the distinguishing feature of this research. This section of data will provide two key insights; first, it will illustrate the extent of knowledge across the participants, and second, it may highlight further resources, capabilities, and awareness than those generated by the researcher.

By exploring the resources, capabilities, and awareness themes as they are presented and prioritised by the interviewee, this research can exhibit the homogeneity or heterogeneity of industry knowledge present across the participants. As discussed in

‘2.5 Research Gap’, traditional quantitative research approaches to the RBV assume survey respondents to hold an equal level of knowledge, and this section will indicate the extent to which that assumption holds true. As the interviews are carried out with industry participants, the use of broad open-ended questions allows the interviewees to present their industry knowledge.

Interviewee-generated themes will be developed through initial broad open-ended questions. These questions will try to draw out the resources and themes which the participants were initially aware of when entering the industry, as well as explore which resources and capabilities they have needed to respond to changes in the industry. The researcher will respond to the interviewees’ answers and will draw out further details on the factors the interviewee generates. In this regard, the researcher will actively engage in the interview process and respond to factors the interviewee raises within their broader answers. These factors may be more specifically developed with follow up questions to define what exactly the interviewee means or ascertain the importance of the particular factors. Additionally, the research carried out prior to the interview will also aid in this section, allowing the researcher to prompt the interviewee, for example to discuss events in the firm’s history. However, the use of nonspecific prompting will be used purely by the researcher to ensure a similar level of discussion and depth across all of the interviews.

5.3 Sample

To fulfil the first research requirement as determined in Chapter 3, the sampling will be purposefully selected (O’Leary, 2007) to ensure comparability. This requires the sample group to be in a similar strategic environment, which is best achieved through choosing firms from a single stage of the industry’s lifecycle (see Chapter 4.1). By choosing a set period of time in which the firms were founded, this ensures that

1. They were all entering into a similar industry environment;
2. They all have had to form and combine their resources based on a similar strategic context; and
3. They have faced a similar set of industry specific and macro environment challenges and opportunities.

Based on the reasons above, the sample firms to be interviewed will be chosen from firms that were founded during the growth stage, that is, between 2000 and 2010. This period of the industry contained a number of industry wide changes in regards to costs, supply, and commoditisation. It also had the highest number of new entrants. From the multitude of new entrants, there appears to still not be a new Icebreaker or Snowy Peak/Untouched World. Understanding the perceptions of firms entering into such a competitive environment should give additional insights to solely focusing on the few successful companies from the ‘introduction period’.

In addition to entering the industry during the growth period, two further requirements ensure comparability. The second requirement is that the firm must be part of one or more of the industry segments determined in the industry profile. Thirdly, the firm must have its own standalone brand/label and not just be a generic open manufacturer. These two factors ensured that the firms are actively participating in the New Zealand merino clothing industry, and as such are influenced and affected by similar industry factors. The second requirement also ensures that the firm has had to establish a brand or label, and determine how best to enter that brand into the New Zealand merino clothing industry.

Having determined the characteristics of the firms to be selected, a sample of firms were selected from the research carried out for the formation of the industry profile. As stated in the industry profile, the firms presented in the industry profile were only a small selection of firms currently present within the New Zealand merino clothing industry. For an illustrative example, a simple Google search of ‘Merino Clothing’, limited to ‘.co.nz’ websites receives 15,900 hits. From the multitude of firms currently present in the industry, 32 were founded during the growth period; however, only 20 of these met both the second and third requirements (please note that the majority of the firms founded since 2000 have purposefully been left out of the industry profile comparative graphs to ensure the confidentiality of the participants).

Contact was attempted with the CEO or Operations Manager of the 20 firms either via email or via phone calls. Only 15 of the firms were contactable or replied. However, three declined to be involved with the research. One case of snowballing occurred in which one of the firms interviewed provided the contact details of another firm, who unfortunately did not meet the research requirements, but was able to recommend

another firm that did. This firm agreed to be involved in the research and took the final sample group to 13. The firms that declined to be involved were of similar sizes, market orientation, and product range as the firms that agreed to participate. From the data obtained from the industry profile together with the prior research done for the descriptive data set, it is the researcher's view that these firms would not have differed significantly from the firms that agreed to be involved.

Once the 13 participating firms were confirmed, interview times were set with each firm's CEO, Operations Manager, or Owner. In most instances, this person was one and the same. All interviews were carried out with an Owner/CEO except for three cases. In one interview, the participant was the Operations Manager, who was not an owner, however was a close relative of the owner and very integrated into the workings and history of the firm. In the other two cases, the interviews were carried out with a husband/wife team, both of whom were owners and managers of the firm. However, in these three exceptions there is no clear difference between these and the other interviews in terms of length or depth of discussion.

The interviewing of a single source per firm, although limiting in the full ability for validation of data, was a necessity. For a large number of the firms interviewed, there was only a single source of data, with the CEO filling multiple roles and responsibilities within the firm. It is for this reason that all steps have been taken to validate the data through the industry profile, as well as with prior research taken into each of the participating firms. This research of secondary sources prior to the interviews allowed the researcher to validate participant's statements in regards to, among others, historical timelines, size, finance structure, product range, and expansion. Furthermore, all participants were informed prior to the interviews of the broad themes to be covered by way of an information sheet (Appendix A: Information Sheet). This sheet ensured each participant was aware of the key themes that the interview would cover, as well as informing the participant that human ethics approval had been granted and that the interviews will be confidential. Providing information to the participants of the themes and the confidential nature of the interviews beforehand aided participation and ensured the interviews covered a consistent set of themes.

5.4 Data Collection

The interviews were carried out over the months of October and November 2010. Although the firms were geographically dispersed throughout both the North and South Islands of New Zealand, the interviews were all, except for one, held face-to-face at each participant's location. The locations for the interviews were chosen by the participants and included cafes, work offices, personal homes, and the one exception held over the phone. In each case, the interview was recorded and later transcribed.

Prior to the formal recorded aspect of the interview, a research consent form (Appendix B: Research Consent) was completed followed by completion of the descriptive data company details sheet. During this period further discussion and clarification in regards to the interview, research, and/or themes was provided when necessary. The formal interview was then carried out. Interviews ranged in length from approximately half an hour through to around an hour and 15 minutes. The average interview length was 50 minutes.

Table 5: Interview Data

Name	Design	Manufacture	Retailer / Wholesaler*	Initial Market	Material: Merino vs. Mixed
Firm 1 (SD1)	X		Wholesaler	Intl.	Merino
Firm 2 (SD2)	X		<u>Wholesaler</u> , Retailer	Intl.	Merino
Firm 3 (SD3)	X		Retailer	Dom.	Merino
Firm 4 (SD4)	X		<u>Wholesaler</u> , Retailer	Dom.	Mixed
Firm 5 (SD5)	X		Retailer	Dom.	Merino
Firm 6 (SU1)	X	X	Wholesaler	Dom.	Merino
Firm 7 (SU2)	X	X	Retailer	Intl.	Merino
Firm 8 (MD1)	X		Retailer	Dom.	Merino
Firm 9 (MD2)	X		Wholesaler	Dom.	Merino
Firm 10 (MD3)	X		Wholesaler	Dom.	Mixed
Firm 11 (LU1)	X	X	<u>Wholesaler</u> , Retailer	Dom.	Mixed
Firm 12 (LU2)	X	X	Retailer	Dom.	Merino
Firm 13 (LU3)	X	X	Retailer	Dom.	Mixed
*Primary underlined					

The above table reports basic information in regards to the participating firms. The name in brackets relates to the strategic typology defined later in the analysis chapter, it is included here for quick reference back from the analysis section. From the 13 firms, a number of noteworthy distinguishing characteristics were present:

- Firm 6 (SU1) and Firm 7 (SU2) are both small operations, comparable to the traditional tailor firm, in which a small number of people do every stage of manufacture and design;
- Firm 11 (LU1) was the only woollen mill included in the sample group. This means that they are involved in the production (knitting) stages as well as the manufacture (C-M-T), design and retail (through their factory shop) and wholesale (through distributors). More firms from the woollen mill segment were approached, however LU1 was the only one who agreed to participate in this research; and
- Firm 7 (SU2) and Firm 3 (SD3) were the only ones who were considering closing down in the near future.

5.5 Data Analysis

The transcription began as shortly after the interview as possible. This was done primarily to decrease the time from research to analysis, though it also had the benefit of identifying emerging themes and further strengthening the researcher's understanding of the industry. However as each interview was designed to draw on the interviewees' perspective, these themes were not explicitly developed into later interviews.

Once the transcriptions were completed and checked for consistency in their Microsoft Word documents, they were imported into QSR NVivo Version 8. NVivo was used to code each transcript. Using the free node function, each transcript was coded independently for any, and all, instances of themes or concepts. By coding independently of the other transcripts' coding ensured that no preconceived set of codes was applied to the analysis. However, when a node already existed for a code, i.e. from another transcript, this node was logically used. This initial coding identified 57 themes.

From the transcripts, three key areas of data needed to be identified and isolated: the descriptive data, the researcher-generated themes, and the interviewee-generated themes. Therefore, the next step in the analysis collated related nodes into key themes and concepts. This second pass decreased the number to 45 nodes. From these nodes, the nodes related to descriptive data could be isolated. This descriptive data from the transcripts were then collated together with the data collected via the questionnaire and secondary sources.

The descriptive data, specifically the integration and size as suggested by Porter (Porter, 1980a), were then used to form a strategic typology with which to approach the analysis of the rest of the data, including the remainder of the descriptive data, the researcher-generated themes and the interviewee-generated themes. In relation to the descriptive data and the researcher-generated themes, these groups were used to determine any trends or exceptions within and between the strategic groups.

After the removal of the above data sets, the final count of interviewee-generated themes equalled 36 nodes. Although the typologies were also used to identify trends and exceptions within the interviewee-generated themes, the high number of factors

required further categorisation. These factors were categorised into seven broad themes:

1. New Zealand Made
2. Expansion
3. Capabilities
4. Relationships
5. Suppliers
6. Customers
7. External Factors

These themes bundle together factors that are related by resource, capability, or environmental factor (external environment or industry environment).

5.6 Limitations

This research is limited by the use of a single source of primary data. Although all steps have been taken to validate the data via secondary sources, there was no other approach suitable when dealing with firms that have an employee count of only one. However, in so much as this is a limitation, it is also a benefit. In these organisations, the owner is responsible for the strategy, decisions, and direction of the firm. By ensuring that the interviews were consistently carried out with the person in the decision-making role, this research has been able to guarantee that comparable information has been gathered from each firm.

In relation to the prior research carried out on each firm, this research was restricted to what information was electronically available. This included the majority of the small rural newspapers, regional tourism sites, the White and Yellow Pages, official company's register, as well as unofficial blogs and reviews. This approach provided an inconsistent result across the participating firms. For a number of firms interviewed this form of information gathering led to a large amount of relevant information. However, for a number of the smaller firms little more was found than the information in the White Pages and the companies register. Although this led to an inconsistency of data available for each firm, the overall accumulation of data meant that the researcher was well prepared for all interviews.

Two limitations associated with research based on peoples' past events and perspectives are well documented in the literature – they are recall (Öztas Ayhan & Isiksal, 2005; Wolfram Cox & Hassard, 2007) and retrospective recasting (Campbell-Hunt, 2007; Regnér, 2003; Wolfram Cox & Hassard, 2007). As the interviews are carried out after the foundation of the firms, the interviews therefore require the participant to recall decisions and analyses that were carried out at the forming of the firm. For all of the firms these decisions transpired more than a year ago, with the longest period nine years since the foundation of the firm. To mitigate this limitation a number of steps have been taken to help the participants' recollection. By giving the participants an information sheet clearly stating the themes that the interviews would cover, this gave the participants the chance to reflect beforehand. Additionally the secondary research carried out on each firm allowed the researcher to use examples from the participants own history to aid the participant's recollection.

The second limitation is that the participant may alter their responses to cast themselves in a better or worse light if they should wish. The only approach to address this is to ensure that the information sheet and communications prior to the interviews reinforce that the focus of the interviews is purely on understanding the participants' perspective. The researcher, however, does not believe that this was a substantial issue for this research. When approaching the participants, most indicated that they felt that they were not "important enough" for the research, or conversely they were, as one participant put it, they were "honoured" to be asked to participate. Furthermore by reiterating the importance of gaining their perspectives the researcher found all of the participants very open and inviting, with conversations carrying on well past the end of the formal interview. These conversations though not recorded have led the researcher to believe that the responses are a valid and true representation of the participant's perspective.

That the research was carried out by a single researcher also presents the possibility of limitations to the research. The choice of which questions to ask, or not, was all determined by the single researcher. The use of the question outline (Appendix D) ensured that each participant was asked the same open-ended questions, however these questions were prioritised by the researcher, and as such, there is a possibility that the participants may not have covered areas that they deemed as crucial or

important. This possibility is not substantial though, with each interview finishing with the researcher enquiring whether the participant has any further comments. This section often covered a number of aspects, which further developed the answers to the previous questions. As noted above, this query often led to expansive discussions that veered away from the formal interview but allowed the researcher to confirm that the main points raised are included in the findings.

Lastly, the researcher's approach to the interviews can also present a limitation. All interviews were carried out by the single researcher and as such, consistency should be ensured. However, the participants were geographically wide spread requiring the researcher to travel vast distances, often within tight timeframes. To mitigate this the interview schedule was designed specifically to allow time before each interview for the researcher to prepare adequately for the interview.

Chapter 6: Findings

This chapter will begin by determining the strategic group typology from the descriptive data set. This typology will then be used to compare firms within and across the strategic groups in the researcher-generated themes and interviewee-generated themes.

The researcher-generated themes and interviewee-generated themes are each developed with associated quotes and findings from the interviews. Samples of quotes from the interviews will be provided to illustrate the perspectives raised. However not all quotes will be presented. The quotes used are those that do not divulge any confidential information, and as such will only be a representation of the views articulated by the participants on the specific theme. However, the firms will be referenced in the text to indicate which firms discussed which factor, with one exception. The identifying nature of the Zque™ factor has meant that the perspectives of this factor are not associated to any firm.

For the researcher-generated themes and interviewee-generated themes, the quotes will be used in either one of two ways. Where the quotes illustrate a progression or evolution of a resource or theme, they, where suitable, will be placed within the text. Where the quotes are not portraying a progression or evolution, the quotes will be bundled and placed following the summary and interpretation. This second approach allows the reader to see the full picture and interactions between the participants' responses, with the quotes supplied for clarification.

6.1 Descriptive Data

Industries are typically separated into strategic groups by way of typological or taxonomic classifications (Hatten & Hatten, 1987; Mahoney & Pandian, 1992; McGee & Thomas, 1986). In general, taxonomic classifications are derived from empirical sources whilst typologies are derived from conceptual distinctions (Mahoney & Pandian, 1992). Although different in approach, both methodologies separate an industry into strategic groups of firms that are similar in regards to resources and capabilities, and follow similar strategies (Caves & Porter, 1977; Hatten & Hatten, 1987; Mahoney & Pandian, 1992; McGee & Thomas, 1986; Rouse & Daellenbach, 1999). Strategic groups exist in their own "niche" areas (Beliveau, Bernstein, &

O'Neill, 1994; Hatten & Hatten, 1987; Porter, 1980a) and are dynamic, both within and between groups (Chen, 1996; Hatten & Hatten, 1987; Zammuto, 1988).

Although the use of a one or two variable (bivariate) typology or taxonomy can be limited in its description of a strategic group (Hatten & Hatten, 1987; Rouse & Daellenbach, 1999), the use of a two variable matrix is often used to illustrate the strategic groups (Porter, 1980a). This separating of an industry into strategic groups is often the first step in analysing an industry (Porter, 1980a), and what Hatten and Hatten describe as “an analytical convenience” (Hatten & Hatten, 1987). To counter the limitation of bivariate mapping, Rouse and Daellenbach (1999) recommend further validation through the use of multiple variables from both primary and secondary sources. This section will therefore form an initial strategic typology and then assess its validity against the rest of the descriptive data.

For this analysis, the participants will be separated into comparable strategic groups. These groups are not intended to define the specific business-level strategy, which the firm is following. Rather, they separate the participants into groups that are positioned within similar niche areas. Although there may be a number of firms within one segment, they may be following a number of strategies. To ensure a similar strategic grouping the participants will be mapped against vertical integration (Harrigan, 1985; Newman, 1978) and size (Lahti, 1989; Porter, 1980a) (Figure 21). This typology will illustrate each firm's relative strategic direction against its relative resource base, with vertical integration offering a relative similarity in strategy and scope (Harrigan, 1985); while size offers a relative measure of the resources a firm has committed to their strategic direction and accumulated so far (Chen, 1996). Although this typology is based on empirical data, it is defined in ranges with the strategic groups labelled relative to one another, and as such the grouping sits closer to the conceptual definition of typology than an exclusively numerical taxonomy.

6.1.1 Strategic Typology

Across the thirteen firms interviewed, there was a clear distribution in the vertical integration of the firms' value chains. Vertical integration relates to the level of ownership of firm specific activities needed to take the product from production to the end user. Vertical integration consists of two approaches, upstream and downstream

(Harrigan, 1985; Wise & Baumgartner, 1999). Activities in the upstream value chain involve the supply and manufacture, whilst downstream activities are the retailing and distribution (Wise & Baumgartner, 1999).

As the Design activities (D) are internally owned by each of the participating firms, the internal ownership of Manufacture (M), Retail (R), or Wholesale (W) determines a firm’s upstream or downstream integration. Furthermore, by using each firm’s level of internal ownership for each of the three stages, a distinguishable vertical integration typology is possible (Table 6). For example, a firm that designs clothing but contracts out all manufacture and wholesales to retail distributors, only internally owns the design process (D). As such, this firm would be classed as a Downstream Wholesaler (D-W), which is the lowest level of vertical integration within this sample group. In comparison, a firm that internally owns the manufacture process, the design process, as well as the retail stores, has a high level of vertical integration, and would be classed as an Upstream Manufacturer, Designer, and Retailer (M-D-R).

Table 6: Vertical Integration Typology

Vertical integration	Processes internally owned	Number of Firms
Upstream	M-D-R	3
	M-D-W	2
Downstream	D-R	4
	D-W	4

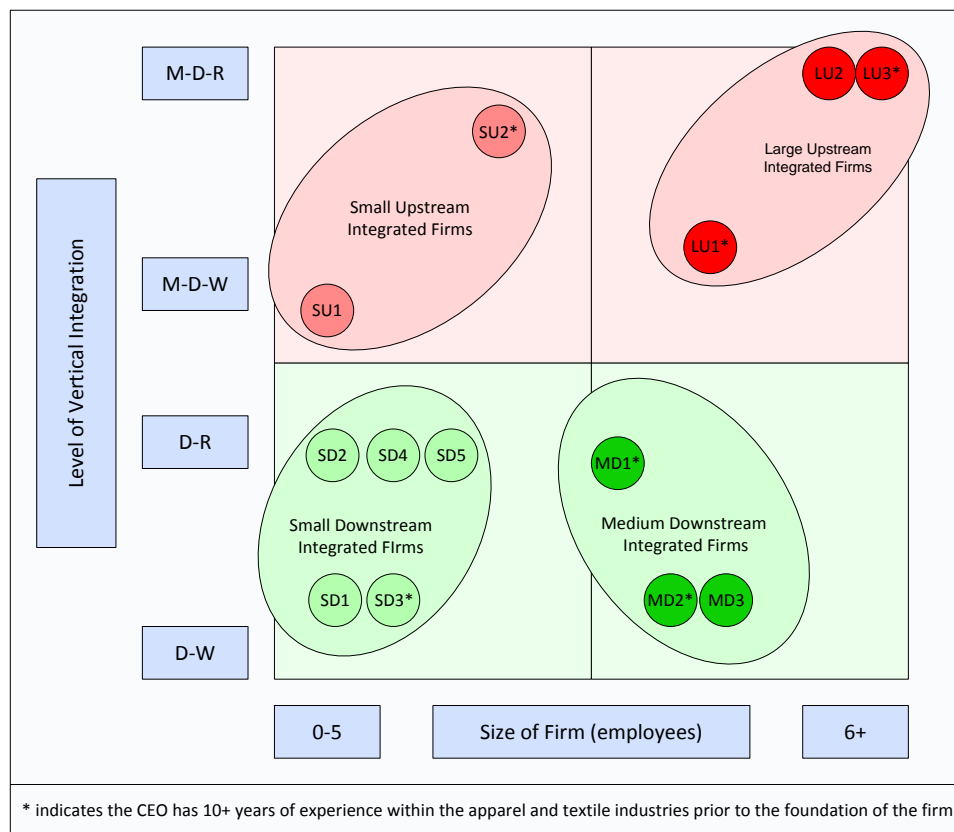
Although all of the firms would be classed as ‘small to medium sized enterprises’, there was a disparity in firm size across the participating firms. The size of each firm offers a measurable construct with which to trace each firms commitment (or ability to commit) to their respective strategic direction (vertical integration). The relative size of each firm, as specified by the interviewee, was determined by the number of employees the firm has. From this data, the firms’ sizes fell into three clear ranges: small firms with 1-5 employees; medium sized firms with 6-10 employees; and larger firms with 10+ employees. Small firms were the most represented group, with seven firms. Medium sized and larger firms were equally represented with three firms in each range.

By plotting the vertical integration of the firms against that of the firms’ sizes, it is clear that the size of the firm does not determine the level of integration, with small

firms owning both upstream and downstream activities. For this reason, the following matrix clearly illustrates the differences between the strategic typologies of the participants. This allows for a more specific comparison of ‘like with like’. Starting with the smallest and least integrated firms, and then ascending through size, the firms will be labelled as such:

- Small Downstream-integrated Firms (SD#);
- Small Upstream-integrated firms (SU#);
- Medium sized Downstream-integrated firms (MD#); and
- Larger Upstream-integrated firms (LU#).

Figure 21: Strategic Typology of Participants



6.1.2 Age and Experience

The age of the firm was determined by the firm’s ‘incorporation date’, as stated in the New Zealand Companies Register (<http://www.business.govt.nz/companies>). This date was then double-checked with the interviewee through the company details questionnaire. No major inconsistencies were found between these two dates, with

the firms falling evenly across two age categories, which are further detailed in Table 7.

Table 7: Age of Participating Firms

Date Range	Firms
2000-2005	SU2*, SD3*, SD4, MD1*, MD3, LU2, LU3*
2006-2010	SU1, SD1, SD2, SD5, MD2*, LU1*
* indicates the CEO has 10+ years of experience within the apparel and textile industries prior to the foundation of the firm	

The experience of the CEO was determined through questions in relation to the CEO’s background. The extent of prior experience is also rather even across the participants, with there being no clear pattern in terms of “experienced” CEOs tending to enter into any specific strategic position. However, it is important to note that the experienced CEOs within the ‘Larger Upstream Integrated Firms’ (LU1 and LU3) started new ventures which built upon existing companies. These are not necessarily new ‘start-up’ firms, but rather firms that either have been bought, or are existing firms moving in such a completely new direction that they are, essentially, new firms (i.e. a new firm name is listed with the company register). In this way, some of the key resources required for the larger sized firms have basically been purchased by a new entity.

The experienced CEOs within the other strategic segments, on the other hand, have primarily worked within the apparel and/or fashion industry and have decided to form their own company from scratch. These firms have started from a similar resource position as the inexperienced CEOs.

Although there is a slightly higher representation of experienced CEOs in the medium to larger sized firms, the experience of CEOs does not seem to have any clear influence on the strategic segment of the firm. Similarly, the relatively even spread of the age of the firms indicates that there is little influence from these two factors upon the firms’ strategic direction.

6.1.3 Target Markets

Although “locals” were often mentioned by the participants as important customers, when asked to define their target market there was a strong trend towards two

markets. The majority of participants identified their target market as either the tourism market, the 30-35 years old plus (30-35+) market, or a mixture of both (Table 8).

The tourism market was specifically defined by each firm as encompassing both international and domestic tourists and held a majority representation in each of the four strategic groups. Two firms further identified certain nationalities as key customers within the tourism market, in these cases the nationalities were respectively 'North American and West European', and 'Japanese and Chinese'. However, as there are only two instances of this, it does not provide a significant distinction for this study, although may be noteworthy for studies of tourism.

Although the 35+ market included both men's and women's clothing, across the participants, this market often went hand-in-hand with other specific markets. The level of consumers' income was a primary consideration of the 30-35+ market firms, with six of the nine 30-35+ firms especially targeting consumers of mid-high level incomes. This was followed to a slightly lesser extent by a focus on the women's clothing market, with five of the nine 30-35+ market firms specifically focusing on this market. Of the firms targeting women, a number did also offer limited men's collections. When defining their target markets, participants often connected two markets:

"I went for the 30s-50s ... they are economically sound, they've got money..."
– SD3

"We go for that 35+ age group, and it's what I call women's mid-market fashion." – MD2

"We are sort of in the mid to upper market area, that's where we sit... What we do are people 25-30 upwards..." – SU2

"Two quite distinct markets: domestic and tourist. But within those markets really the core market is the same person: it's a 35+ lady in the middle to upper end of the income brackets" – LU2

Further to these primary target segments, two other markets emerged as being important. The ‘younger market’, specifically defined as the 20-35 age range, was noted by three firms. The international market was also mentioned by three firms, though in each case they had to re-focus their market back towards New Zealand; why they did this will be covered later in “6.3.2 Expansion”. Lastly, four firms specified markets that were not repeated by any other firm within the sample. They were Casual (SD2), Urban (LU3), Soft Adventure (MD3), and Lifestyles of Health and Sustainability (LOHAS) (SD5). Given Icebreaker’s domination of the Soft Adventure market, it may not be surprising that very few competitors are directly targeting this type of market. It is perhaps more surprising that the LOHAS market did not receive more of a mention. Although it is the domain of Snowy Peak/Untouched World, the LOHAS market has received a fair amount of press, with its consumers being especially attracted to environmental and sustainable products, which would presumably make this a favourable market. The single mention of the LOHAS market is definitely of interest, as a number of firms’ websites clearly imply a focus on this market, with the sustainable and environmental characteristics of merino wool and the manufacture of the clothing being promoted on their websites. Although of course the absence of the LOHAS from the interviews does not necessarily correlate to the claims on the websites being false, it does raise the question of how embedded the LOHAS and environmental aspects truly are in the firm’s strategy.

Table 8: Participants’ Target Markets

Market	SD1	SD2	SD3	SD4	SD5	SU1	SU2	MD1	MD2	MD3	LU1	LU2	LU3	Σ
Tourism			X	X	X	X	X	X	X		X	X		9
30 – 35+	X		X	X	X		X	X	X		X	X		9
Income	X		X		X		X		X		X		X	7
Women	X			X			X	X	X			X		5
20 – 35		X								X			X	3
International	X	X					X							3

6.1.4 Distribution

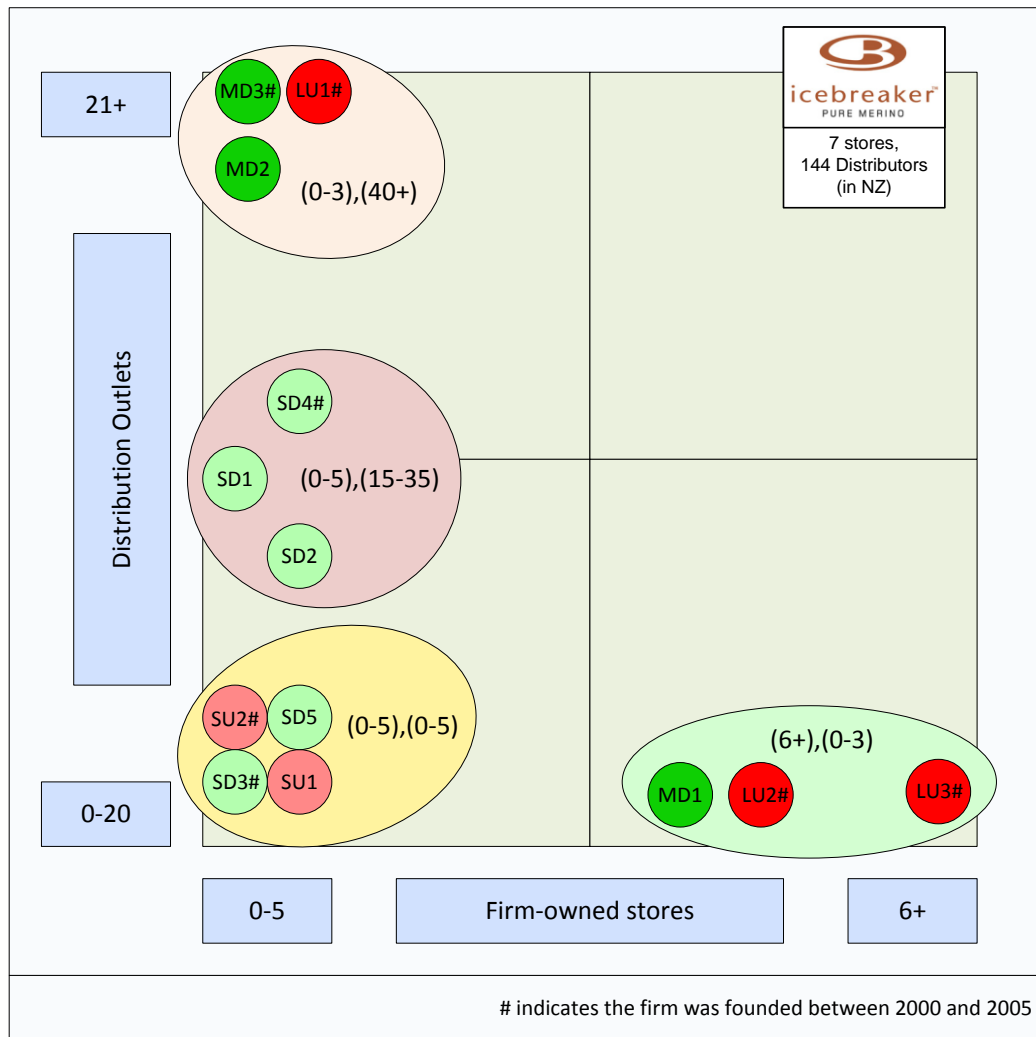
Two main distribution approaches are used: either external distribution outlets or firm-owned retail stores (Figure 22). For the majority of firms the choice of distribution approach fully aligned with their strategic typology. For example, the majority of firms that had chosen wholesaling as their distribution approach naturally

had a higher level of distributors than firm-owned stores. Likewise, firms with internal retail capabilities naturally had more firm-owned retail stores. Furthermore, the impact of the firms' ages was also as to be expected, with the majority of the relatively older firms indicating higher numbers of distributors or firm-owned stores.

Nevertheless, a number of firms are not positioned as might have been expected. MD1 and LU1 seem to be clear exceptions to their strategic groups. However, MD1 is the only firm in its strategic group that is primarily a retailer (D-R) (Figure 21), and therefore its position in the firm-owned stores quadrant is not surprising. Likewise, LU1 has a stronger wholesale focus compared to the other firms within its strategic group (Figure 21) and as such, its position in the wholesale segment is understandable. SU2 and SD3, on the other hand, do represent an anomaly. Despite being in the older age bracket, both of these firms have less than three shops and less than five distributors. Even though, as noted in Chapter 5, both of these firms are intending to close down within the near future, from the interviews and prior research it is clear both have been at the same size for the majority of their firm's life.

Overall, it is interesting to note that there is a clear inclination to focus on one approach over another, with the sample firms aligning themselves primarily with only one of either distributors or firm-owned stores (Figure 22). To offer a comparison, Icebreaker's New Zealand operations include a more mixed approach with seven Icebreaker owned stores and 144 distributors nationwide (Icebreaker, 2011c). Icebreaker started out however as a wholesaler (Lassiter III & Heath, 2005), and has only really made the concerted move into retail in the last five years (Gadd, 2010b). Snowy Peak/Untouched World are not tracked on this map as they only have firm-owned stores within the New Zealand market (Untouched-World, 2011). However, it should be noted that they have distributors in eight countries around the world, which includes the century old Isetan Company Ltd chain in Japan (Hutching, 2001).

Figure 22: Mapping of Distributors against Firm-Owned Stores



6.1.5 Brand

As with the target market, there was a strong trend towards a few specific aspects across the participants’ branding statements. New Zealand and its recognized characteristics were present in ten of the thirteen participants’ definitions of their brand. The New Zealand aspect was closely followed by ‘supporting the New Zealand manufacturing industry’. This was viewed as supplying employment and work experience to New Zealand workers. The quality of the product and the values of the firm were represented across four firms, with three out of those four including both within their brand definition. In each strategic segment, New Zealand was the primary brand aspect, except for the Medium sized Downstream-integrated segment (MD1, MD2). In this segment, customers’ needs were identified as the foundation of the brand. These were defined in each of the three cases as relating to the fit of the

garments. Interestingly, SU1 coupled the customers' needs with affordability, which was aligned with their target market focus.

Community was also present in three participants' definitions, with a majority presence within the Larger Upstream firms. This factor, however, was not the sole foundation of the firms' brands (Table 9). Four further characteristics were to a lesser extent mentioned. These were individuality, which was mentioned twice, cool, fun, and crisp (smart) mentioned once each.

Although every participant was able to articulate a number of aspects upon which their brand was formed, none of the participants provided a clear and concise branding statement. For confidentiality reasons, the following quotes do not represent the entirety of what was explained. However, it does indicate the style in which the brands were described. Table 9 summarises the aspects that were covered in the full explanations.

Examples of "New Zealand"

"...to showcase what Kiwi lifestyle is all about, how most Kiwis enjoy living."
– MD3

"...we're constantly trying to get that attachment back to what New Zealand values, what we enjoy about New Zealand, and what we do." – LU3

Examples of supporting local industry

"We want to stay New Zealand made and support the local industry. And have something, it is one of those brands that Kiwis really like and would be nice to be able to turn it into a cool iconic brand." – SD4

"It's about offering quality and a product that is made in New Zealand, that's really important to us, to make it here and support local business or national business. It's also about creating an investment product for people. So it's not this disposable fashion you buy in one season and it's out of style the next type thing." – SD1

Examples of Quality

“...the fact that we make it ourselves and in particular that we sell it out of our own shop so we have a direct relationship to our customers, we’re always think that’s a real guarantee for the customer of quality.” – LU2

Example of Ethical Values

“...it’s good and positive and ethical and right, and it’s a strong word that associates with New Zealand as well and what we want the brand to be. Something that you can feel really good and proud about, and not just about wearing it as a brand....you have good feelings about the way it’s made, where it comes from too, it has integrity.” – SD2

Examples of Meeting Customer Needs

“Basically, I try to meet the feedback from the clients, what they, the customers, what they are looking for...to make and provide a totally New Zealand made garment at an affordable price.” – SU1

“I suppose it is a brand fulfilling the needs of similar people, who don’t want to be high fashion” – MD1

“The section of women that we deal with don’t want to be confused about how a garment needs to be put on, about which strap goes where and how many, They like a little bit of simple layering, but they like wearable garments that they can throw on” – MD2

Example of Crisp

“It’s crisp, it’s smart, and it’s not related to any other thing... so hopefully it will evolve like the Nike brand.” – SD5

Table 9: Ingredients of the Firms' Brands

	SD1	SD2	SD3	SD4	SD5	SU1	SU2	MD1	MD2	MD3	LU1	LU2	LU3	Σ
NZ	X	X	X	X	X	X	X			X		X	X	10
Support Local	X	X		X						X	X	X	X	7
Quality	X	X								X	X	X		5
Values	X	X								X		X		4
Customers' Needs						X		X	X					3
Community	X										X	X		3
Individuality						X				X				2
Cool				X										1
Fun										X				1
Crisp (Smart)					X									1

6.1.6 Summary

The descriptive data has developed the typology of the four strategic groups. These groups are determined by the strategic direction of the firms, as determined by their vertical integration, and by their relative resource bases and commitment, as illustrated by their relative sizes. The strategic groups are:

- Small Downstream-integrated Firms (SD#);
- Small Upstream-integrated firms (SU#);
- Medium Sized Downstream-integrated firms (MD#); and
- Larger Upstream-integrated firms (LU#).

The age of the firm and the level of experience of the CEO appear to have little impact on the position of the firm in regards to its strategic grouping.

Across these strategic groups, there appears to be little differentiation in regards to target market or brand. The majority of the firms are focusing on tourists in the 30-35+ segment. Likewise, the majority of the firms have decided on New Zealand and its associated attributes as the foundation for their brand.

The main area in which the strategic groups diverge is in regards to retail. In this area, the participants have made a clear strategic decision either to distribute through wholesale or to retail through their own stores.

6.2 Researcher-Generated Themes

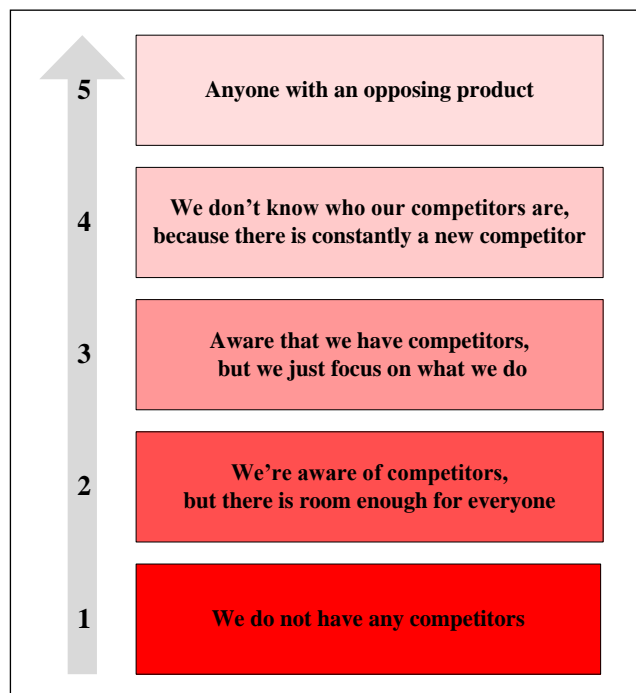
This section looks at the themes that were explicitly queried by the researcher. The participants were asked how they viewed competition within the industry, followed by who they perceive to be their competitors. As Icebreaker and Snowy Peak/Untouched World are often touted as the New Zealand merino clothing industry leaders, the participants' perception of them was also queried.

Subsequently, questions in regards to the human resources and the financial founding of the firm were asked. These were raised as unobtrusively and as explicitly as possible, allowing the participants to choose whether they would elaborate on this theme or not.

6.2.1 Competition

Across the participating firms, there was general agreement that within the merino clothing industry there is not a particularly high level of perceived competition. The responses from the participants are here formed into a scale of competitive awareness, which clearly indicates this general non-competitive perception (Figure 23).

Figure 23: Levels of Awareness of Competition



Of the thirteen participating firms, only three indicated any recognition of aggressive or active competition. In each of these cases, however, the competition was assessed

in a general, all-encompassing manner. For example, the highest description (Level 5) was a broad, non-specific:

“...anyone with an opposing product, I suppose” – LU3

This non-specific concept of competition was also echoed by the SD2 and SD3, who articulated their perspective of competition in a more exasperated recognition of the increased number of entrants:

“I don’t know who all my competition are, because there’s just constantly a new merino brand.” – SD2

“...we feel like we’re in competition with everybody actually and ... the problem with merino now is everybody has their own brand of merino.” – SD3

These three participants were, however, very much the exception, with the other firms all holding non-competitive perceptions. At the polar opposite end of the spectrum, three firms indicated that they did not have any competitors. Among these firms, there were slight differences in perspective, with two firms indicating that they have no competition due to their original approach, whilst the other recognized that their perspective might be naive:

“I still have no competitor. No one has done or can do what we have done.”
– SU2

“Not really, because we design our own.” – MD1

“...from quite early on, we quite distinctly veered away [from Icebreaker] and so we’ve never seen ourselves as aggressively competing with anyone else.” – LU2

“In terms of competitors, we’re probably again naive in thinking that we don’t really have any.” – SD1

Between the two extremes were the remaining seven firms, who all admitted to an awareness of competition but stated that they were not actively competing. The

overriding view of these firms was that they just focused on their own abilities rather than on what their competitors were doing:

“I’m really not concerned about what Icebreaker do and what they don’t do, or what the other companies do. I just know what works for me and I just worry about me.” – SU1

“A lot of times, although we have got competitors out there, we sort of maybe don’t think, “hey, we’re competing against these guys”. We just sort of think they are doing what they are doing, and we are doing what we are doing, and maybe they are similar, but we focus more on what we are doing than what they are doing.” – SD4

“...to be perfectly honest, not to be arrogant, but I’m a real firm believer that if you do what you do well, then that’s fine. At the end of the season I’ll have a bit of a mooch around and sort of understand where we fit.” – MD2

“...there is a bunch of the New Zealand made fashion brands I think that we probably compete with... but I don’t really take [them] into consideration a lot. I don’t feel, apart from looking at the price point, well even with the price point, you can only do what you can do.” – MD3

Two other firms were also aware of their competitors, but took the perspective that “there is room enough for everyone”:

“...we do what we do and they do what they do and I think there’s room in the market for everybody, we’re certainly not feeling threatened by anybody and we don’t perceive ourselves to be a threat either.” – LU1

“There is enough scope globally where we don’t have to compete with anyone.” – SD5

What is noticeable is that these levels of competition, as defined above, are generally well dispersed across the participants, with none of the strategic groups indicating a comparably higher or lower level of competition. The following table indicates where each firm is positioned on the scale as defined in Figure 23 above.

Table 10: Levels of Competition

LoC	SD1	SD2	SD3	SD4	SD5	SU1	SU2	MD1	MD2	MD3	LU1	LU2	LU3	Σ
5			X										X	2
4		X												1
3				X		X			X	X		X		5
2					X						X			2
1	X						X	X						3

This theme provides a view that goes somewhat against the traditional notion of competition, that a high level of competition would be present in an industry with numerous firms (Porter, 1980a). Overall, the perception of competition within the industry is much lower than had been expected given the extensive entry since the year 2000. This will be further developed in the following analyses.

6.2.2 Competitors

Although there was generally a low level of perceived competition, a number of participants identified specific competitors and competitive groups. Interestingly these ‘competitors’ were at times mentioned by firms who had previously stated they did not have competitors. However, the number of competitors identified is not consistent across the participants, which given the low perceived level of competition is probably not surprising. The table below (Table 11) indicates the competitors and groups of competitors as mentioned by each firm.

This table further illustrates the breadth of the merino clothing industry, with the participants identifying even more firms and competitor groups, in addition to those in the industry profile. However, little mention was made by the participants in regards to the substitute fabric, with only SD5 mentioning polypropylene. Interestingly, Ballentynes⁶ (www.bfc.co.nz) is the most frequently mentioned of the specific competitors. This is likely due to Ballentynes geographic coverage as a chain store, coupled with their presence in the same 30-35+, women’s clothing market. Nevertheless, from the participants’ responses it is clear that there is a limited awareness of competition and competitors within the New Zealand merino clothing company.

⁶ Not to be mistaken with Ballantynes, the Christchurch department store (www.ballantynes.com)

Table 11: Competitors Mentioned

Firm	Specific Competitors	Groups of Competitors
SD1	Survival, Chalky Digits, Silk Body	
SD2	Icebreaker	
SD3		“The problem with merino now is everybody has their own brand of merino, whether it is the west coast shops, the tourist shops, everybody has it. And a lot of it is Chinese now”
SD4	Chalky Digits	
SD5		“Biggest competitor, if you actually analysed it, is polypro without a doubt.”
SU1	Farmers, Ezibuy	
SU2	Ballentynes, Glassons	“I mean shoe shops were selling merino tops, you know ridiculous. So everybody got on the bandwagon and this sort of ate into that part of our range.”
MD1	Ballentynes	
MD2	Velocity	
MD3		“There is a bunch of the New Zealand made fashion brands, I think that we probably compete with, with some styles and some garments. And the same within the outdoor industry”
LU1	Koru, Lothorian	
LU2	Snowy Peak and Untouched World, Just Country, Weft Knitting Co. Ltd.	
LU3	Ballentynes, Barkers, Max, Country Road, Kathmandu	“Strong Independent [labels]”

6.2.3 Icebreaker and Snowy Peak/Untouched World

Although Snowy Peak/Untouched World and Icebreaker are the two leading firms in regards to the New Zealand merino clothing industry, the former was mentioned far less than the latter. Interestingly it was primarily the larger upstream firms, that mentioned Snowy Peak/Untouched World; it was otherwise only mentioned by MD1 (see quote below).

“I would say, in terms of the same kind of product you’ve got Snowy Peak and Untouched World and pretty much Snowy Peak and Untouched World customers are the ones we’re after.” – LU2

“One or two people have switched on to that emotional attachment like Untouched [World], Snowy Peak and Osprey. That is the thing that separates them away from everyone else, that they have created that emotional attachment back to their products.” – LU3

Although mentioned more often by participants, perceptions of Icebreaker did differ. These responses were primarily in relation to the competitive relationship between Icebreaker and the participant. In this regard, two major themes were raised. The majority of participants mentioned how Icebreaker's move to China allowed New Zealand made products a differentiation that they had not had whilst Icebreaker was still manufactured locally. This opened up the opportunity for these firms to enter the industry with a New Zealand made product.

The second major perspective raises an interesting aspect, which ties back to the earlier theme of how the participants perceive competition (Figure 23). In this case, a number of participants indicated that they did not perceive themselves in competition with Icebreaker, based on Icebreaker being so far ahead competitively. The perspective that a firm is no longer a competitor due to their size or ability is a surprising and interesting aspect. As this research has employed size as one of the variables to form the typology of this sample group, this aspect may have implications for research in regards to the borders, or perceived borders, of industries and strategic groups.

"...Icebreaker, I did think of as a competitor, but now I wouldn't, because they only go into sports stores. They don't go after fashion boutiques." – SD2

"...Icebreaker probably [targets] 20-45 [year old age group], just because of how they make it, the cut. And Snowy Peak again is more of an overseas targeted business and very expensive. So probably, the markets we are targeting aren't in the same bracket." – MD1

"But they are not competitors. As soon as they went to China we automatically have point of difference because we want to make it in NZ." – MD2

"...when I saw that Icebreaker had gone Chinese I said, 'Well, here's an opportunity surely?'" – LU2

However, LU2 continues in pointing out that *"...of course, you are in competition with Icebreaker. You know, it's always a reference point."* Of the other firms, only

SD1 shared a similar perspective to that of LU2. While SD3 and SD4 see themselves as being unable to compete with Icebreaker, due to Icebreaker's size and ability.

"...we knew that we weren't sort of competing with Icebreaker, but we saw them as something to work towards." – SD1

"We can't really compete against Icebreaker." – SD3

"I don't think we would ever be able to take on Icebreaker. They have probably got it pretty sewn up, but at the same time, we would certainly never be able to take them head on." – SD4

In addition to the two major views, a number of less mentioned perspectives were articulated. One of these linked clearly back an aspect raised in the industry profile around the major firms' role in educating the consumer. In this regard, Icebreaker was recognised as having a strong impact on the education of consumers on the properties of New Zealand merino wool.

"I fully admire Icebreaker. They have done a fantastic job, they sell to 13,000 [shops] all over around the world, and their income is probably astronomical and good luck to them. They have put merino on the map." – SU2

"Icebreaker has done a really good job of telling how our [New Zealand] merino had a slightly better twist in it which gives a slightly better technological advantage. I cannot understand how anyone can actually feel that." – LU3

Conversely, however, there was also a less positive attitude towards Icebreaker, where frustration was expressed at how Icebreaker does not use their size to better the industry. This is mentioned by SD3 in regards to the environmental awareness movement:

"I'll tell you, somebody with the money and push of Icebreaker, if they were to push the eco thing, it would be quite large." – SD3

MD3 takes this further in expressing frustration at Icebreaker using New Zealand and its associated characteristics but not returning anything to the New Zealand industry.

Although not a focus of this thesis, it does raise a number of interesting questions for future research. The main question would be, ‘how much responsibility should a firm have to its country of origin?’ Icebreaker is New Zealand owned, which means that at least the profits return to New Zealand, if not the employment created to manufacture the products. However, the industry profile identified a number of international firms using not only New Zealand merino wool, but also the New Zealand ‘story’ (Ibex, 2010); would similar expectations of ‘giving back’ be placed upon them?

“I think that’s one of the things that drives me crazy about Icebreaker is that they use the whole story of New Zealand and the landscape and our culture and everything else but they just don’t seem to give anything back. They are not even giving jobs back really, not on a large-scale.... Giving something back to the country seems to make sense to me. It’s kind of frustrating, I don’t like it when I see people using the country story and not putting their bit back into it.” – MD3

The above responses in regards to Icebreaker and Snowy Peak/Untouched World further indicate the non-specific perception the participants have of competition. Although a number of firms do indicate a limited awareness of being in competition with Icebreaker and Snowy Peak/Untouched World, only LU2 seemed to perceive themselves in active competition with them.

6.2.4 People Resources

People resources were primarily addressed in three different ways. Not surprisingly, these are distinguishable by the size difference between the participants. The majority of small firms mentioned the list of jobs required of themselves and, at most, possibly one other business partner. The Medium Downstream firms in comparison were more focused on the need to grow and the issues currently facing them with their current size. The Larger Upstream firms spoke about the importance of their work force.

The Small firms’ responses indicated their resource constraints. For the small firms to be able to compete in any form they need to overcome the challenge not only of resource allocation but also of finding the resources to compete. For example, the following quotes all indicate that if the participant is working on one activity, they have limited people resources available to complete any other activities.

“Marketing is a huge thing but it holds me back a little bit because if I push too hard with marketing then I’m not working, and if I’m not working then I’m not earning. I don’t want to end up disappointing by not being able to supply quickly.” – SU1

“My problem was that to do this concept I needed a partner, or a financier, or somebody to sit alongside. I mean I can’t do everything.” – SU2

“We have an outsource business also where I’m the only, I’m not even the only employee yet.” – SD1

“I have people in the shop. But basically everything else from sourcing, production, accounting, finance, is me.” – SD2

“I always talk ‘we’ as in the business, which is pretty much me and [Business Partner], she looks after the admin, and I pretty much do everything else.” – SD4

In comparison, the medium sized firms indicated that they have resources available to complete the activities they need to do. However, they all indicate that each person is fully employed with each activity and that to be able to grow or to be able to develop further, more people resources will be needed. For example:

“I love being in here with the customers, I think that’s always great, ...but I definitely need to be in that office more and more focusing on the design side of it.” – MD1

“I had some health issues, so that’s been a challenge for the business because we’ve got such a small team. One of the girls went off and had a baby, so she’s come back so that’s ok.” – MD2

“We are always, the staff are maxed out, there is not much room for anything else in there. Everyone is pretty busy in their jobs. It would always be nice to be able to afford another staff member to work on new projects and things. And probably that would be the next person I would like to have is someone to help me with the design side of things.” – MD3

On the other hand, the larger sized firms have plentiful people resources available and all of them discussed the importance of their people resources for the company's success. For example:

"...We've got a really flexible workforce, because they've been there over years and years. We've encouraged them to be multi skilled, because it's only a small team, and we're putting out large volumes sometimes, so we have people able to move from one area to another just to fill gaps and I think that's crucial. We can do well, we don't have waiting times" – LU1

"We see our customer service people as the most important people in the company. I mean, every cent the company makes comes through them." – LU2

"But we are very lucky most of our staff are very loyal. Very much on board with what we're doing, quite critical of what we're doing too. Quite quick to come back and tell us what we're doing wrong – and equally occasionally [what we do well]..." – LU3

The clear distinction between how the different firm sizes perceive people resources indicates how people resources develop as a resource over the life of a firm. For the small-sized firms they are constrained by their lack of people resources, because for these firms, people resources are primarily just the owner. If the owner is unable to work, the firm is unable to work. At this size, the inherent resource constraint must increase the value of people resources for these firms.

As the firm progresses to medium size, the firm becomes dependent on each individual staff member to carry out their specific activity. There is still little flexibility, or ability, to have someone cover that staff member's activity.

The final stage is when the firm becomes large enough to be neither reliant nor dependent upon individual staff members, but rather the people resources, as a combined entity, become important. It is at this stage that the firm has a sufficient amount of people resource capacity to be able to focus on developing the firm.

6.2.5 Financial

Although the financial foundation of the firms was not something this research questioned directly, nine firms did discuss their founding financial information. From this two clear approaches appeared. The first approach was the use of personal or family funds in founding a firm. Drawing on information gained from the companies register, every firm, except one, were privately owned either by the participant or by close relatives. The following selected examples indicate this control.

“I did have a family member, my sister, who helped me at the very beginning.” – SU1

“The bank started to get into their mode when things were starting to turn pear-shaped, so I had to go to people I knew in my family and say ‘can you give me some money?’” – SD1

“Just dad and I, just personal funds.” – MD2

“My dad was the sole investor in it and he helped me out there for moral support, but I was basically running the show.” – MD3

“The bank manager knew of us and the business, and it stacks up. And [the business] isn’t trying to borrow a lot of money to make a lot of money kind of thing. It’s a stable business and the way it’s been set up, we haven’t needed a lot of money...” – LU1

“I financed everything, all that money myself. I spent – I won’t tell you how much – but I spent a lot of money getting there. Of course a lot of time we never had an income, you’ve got to pay all your costs so it’s been a lot of money.” – SU2

“...My wife and I still retain 100% ownership of the company, and that’s always the bind if you want the option to grow quickly then you’ve got to take in shareholding capital and we’ve never wanted to do that” – LU2

The second theme discussed was in regards to venture capitalists. Two participants mentioned this aspect – however with slightly differing perspectives. LU2 recognised

the need for capital for quicker growth but was not inclined to relinquish control of the firm for quick gains:

“The venture capitalists, or shareholder capitalists, they want their pound of flesh, what they’re after is a shareholding in the potential spectacular growth of the company so well I spent a couple of years trying to work out a way around that, then I realised there isn’t in New Zealand.” – LU2

SU2, in contrast, was more inclined to relinquish control if it would allow the firm to enter into international markets:

“There is a lot of help in the beginning. There are all sorts of angel investments doing things for people and all the rest of it but once you get beyond that, forget it. This is a big let-down for a lot of companies. You can get there and then it stops. Now at that point you then need somebody like Icebreaker had, you know Jean Todd and the whole mob and put 10 million dollars in, and away they went.... I’ve approached all sorts of people and nothing, people sell parts of the business to somebody. I’ve tried everything; I just cannot find somebody who can see the vision of what we have done here.” – SU2

The above responses are indicative of the high level of control sought by most of the firm owners. Whether this is due to the owners own inclinations or to the New Zealand venture capital environment it is not possible to say. The response of LU2 could indicate that a number of the other firms are also loath to give up control, while SU2’s perception may indicate the New Zealand environment is not forthcoming with available venture capital investment, or conversely that SU2 was not regarded as an attractive investment.

6.2.6 End Goal of the Firm

The end goals presented by the firms vary across the participants, with the goals ranging from one extreme of closing down through to the other with aspirations for them to become a generational family firm. Significantly, these two polemical end goals were matched by contrasting firm sizes. Two small sized firms (SU2 and SD3) were planning to close down in the near future, whereas one medium sized firm

(MD1) and two larger sized firms (LU2 and LU3) indicated goals for the firms to continue beyond the current CEO.

For the most part the end goals were somewhat short term in their perspective. In addition to the two firms closing down, three firms indicated a belief that the firm would be sold in the end (SD1, MD2, and LU1). However, SD1 differed from MD2 and LU1 in perspective, where MD2 and LU1 recognised that the selling of the firm would be the likely end, SD1 was actively working towards the selling of the firm as a business aspiration. In this way, the selling of the firm was seen not so much as the end of the firm, but rather as a new opportunity for growing the firm.

The last set of goals articulated by the participants illustrated more general end goals. These perspectives were either a ‘see how it goes’, or an aspiration to reach a specific business model or level of stability. SU1 and MD3 were both unclear on their desired end goal, but explained that they just wanted the business to continue to grow and evolve. SD4 and SD5 on the other hand both had a vision of the style of firm they wanted their firm to become.

Closing down

“We are actually closing down... I actually gave the business to somebody who specialises in selling part or all of businesses that have potential.” – SU2

“You know we’ve been in business for a long time now and well, we are pretty well ready to retire.” – SD3

Sell

“To have a business that I can sell for millions actually. Yeah, that’s kind of where I see SD1 going. It’s gradually building up that momentum, getting to that point where we can put it on the market and say, ‘is there anyone else who is interested?’ Or sell a portion of that.” – SD1

“I think that after ten years I’ll be nearly 50, so I think it will be a choice. I’ll either still love it and choose to continue to still do it, or I’ll just sell it.” – MD2

“Eventually the business will either wind up or be sold.” – LU1

Business Aspiration

“To be honest I haven’t even thought about it. I’m just so busy... It’s at a really exciting stage now because I’m doing different fashion garments and the customer feedback is really exciting so I haven’t really thought of an end goal, just ‘keep on going.’” – SU1

“I want it to get to a level where we are comfortable, we can employ more people and I’ve got more time to work on the business.” – SD4

“Long-term that’s our vision: to take it right from sheep right through to where we sell the product. Right through that process you are in charge of the way you display it, how you are promoting it, all of those sorts of things.” – SD5

“I don’t really see us having an end goal, it’s just I want the business to continually evolve and grow and recreate. I think we’re always recreating ourselves.” – MD3

Pass on to Family

“I probably see a future for ten years. Another ten years of doing what I do and then I don’t know whether I’d sell it or just shut down. I’ve got one daughter who’s quite interested in clothing so she may come in. Whether she did this or not would be, you know, completely debatable.” – MD1

“I like the idea of putting something together that can hopefully benefit my family going down the generations and hopefully doing something as an entity that also benefits the society that we live in.” – LU2

“I want to see us going forward, but whether our kids get involved in the business I doubt. None of them are shaping into that, but we will have some ownership issues come up in the next ten years that will need to be addressed.” – LU3

6.2.7 Summary

Each of the aspects of competition covered above has indicated that competition is not perceived by the participants in the way that the industry profile or traditional academic approaches would perceive it. The generally low level of perceived competition indicated from these interviews, raises a number of questions in regards to the assumptions upon which competition and competitive advantage are generally based. These questions will be further considered in the discussion chapter.

The theme of people resources has illustrated how the perceived value of a resource changes as a firm increases in size. This difference in perspective between small and larger firms further supports the importance of having comparable participants in a study. Additionally, the small firms offered an interesting new element to the ‘people as competitive advantage’ debate discussed in the literature review. For the small firms the CEO undertakes multiple roles, and as such is a critical resource for the firm. Although this may not specifically be a competitive advantage in relation to competitors, here it is likely that the CEO is a complementary resource. Without the CEO, few other resources can be utilised effectively.

Responses to questions regarding the participants’ end goals highlighted that the majority of the firms are not intended by the owners to become long-term businesses. That is, it is assumed that the firm will not continue beyond their current CEO, which may be often assumed when a firm is starting up. Only three of the thirteen participants explicitly indicated a desire for their firm to continue past their time with the firm, although it may be argued that SD1’s goal of selling could be seen as a desire to extend the life of the firm.

However having a short-term perspective, or more accurately a day-to-day perspective, as is apparent in the responses to the end goals section, may have a flow-on effect. The perspective articulated here will likely affect both the strategic decisions and the development of the resources of the participants. This will be further developed in the discussion section.

6.3 Interviewee-Generated Themes

This section explores the factors that the participants chose to emphasise. Because of this aspect this study neither attempts to provide a definitive list of resources or

capabilities that the firms currently contain, nor a full set of the themes or factors of which the firms are aware. Traditional approaches to RBV studies may have approached the participants with a pre-prepared list of resources and asked them to indicate how important various resource are to their firm, as Hall (1992) did for example, with his survey which focused on thirteen different resources. However, in asking a range of broad, open-ended questions, the interview process encouraged participants themselves to identify the resources, capabilities, and themes that they felt were most important for their firm. The result was the identification of 36 different factors across the thirteen firms (Table 12).

Table 12: Instances of Factors Raised

	SD 1	SD 2	SD 3	SD 4	SD 5	SU 1	SU 2	MD 1	MD 2	MD 3	LU 1	LU 2	LU 3	Σ
New Zealand Made – Differentiator	X	X	X		X		X	X						6
New Zealand Made – Constraint			X	X					X	X		X	X	6
Zque™*														2
Expansion Domestic	X					X			X			X		4
Expansion International	X	X								X			X	4
Barriers to Entry												X	X	2
Formal Business Practice					X							X		2
Low Cost Strategy			X			X		X			X			4
Distribution Strategy	X								X		X			3
Colours	X	X	X			X	X		X	X				7
Design		X	X	X	X			X		X	X	X	X	9
Manufacturing Capability						X					X	X	X	4
Supply Industry Awareness			X							X		X		3
Relationships – Banks											X		X	2
Relationships – Suppliers				X		X					X	X		4
Relationships – C-M-T Manufacturers	X	X							X	X				4
Relationships – Distributors						X			X					2
Relationships – Customers						X						X		2
Relationships – Customers CRM				X				X						2
Relationships – Community		X			X						X	X		4
Relationships – Community (Limitation)	X		X										X	3
Relationships – Reputation			X						X		X			3
Product Supply		X					X			X		X		4
Merino Awareness			X									X	X	3
Conservation Work										X		X		2
Green Washing										X		X	X	3
Environmental Education	X		X		X									3
Market Changes								X	X		X	X		4
Customer Mentality			X	X										2
Discounting												X	X	2
Selling Windows			X					X						2
Local Government							X							1
Natural Disaster								X						1
Geographic Location			X	X										2
Recession Effect				X			X	X	X			X	X	6
Recession Capability	X	X												2
Total	9	8	13	7	5	7	5	8	9	9	9	17	11	
* to maintain confidentiality, firms which discussed this factor are not identified														

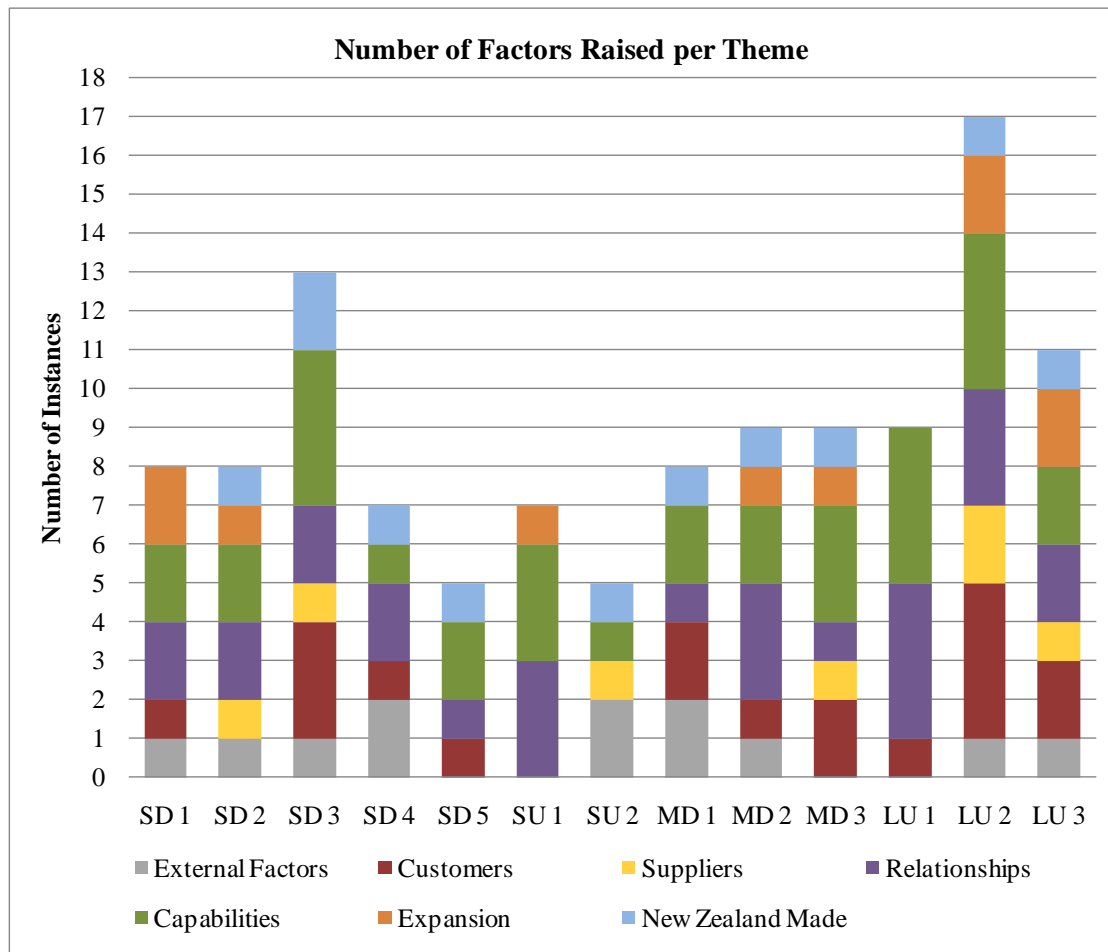
From the data in the above table, it is possible to compare the number of themes discussed by each firm. Although the medium to larger sized firms seem to have articulated a slightly higher number of themes than the smaller sized firms, in general the firms appear to have discussed a similar number of themes. Most firms mentioned between 7 and 11 factors. Such a relatively even level of prioritisation would often be used to support the use of a survey instrument and with it the assumption that most participants share a similar level of knowledge.

However, such an analysis does not reflect the full depth of the data collected. Further analysis of the data shows that the 36 factors can be bundled into seven broad themes. These themes tie together factors that are related by resource, capability, or environmental factor (external environment or industry environment). Using these as guides, the seven broad themes are labelled as:

1. New Zealand Made
2. Expansion
3. Capabilities
4. Relationships
5. Suppliers
6. Customers
7. External Factors

When comparing the same data again but including the distinction between each of the seven themes (Figure 24), a different story is apparent. Now, even though the participants are seen to have raised a similar number of factors, they are not the same ones. In fact, the only theme discussed by all the participants is that of 'Capability'.

Figure 24: Number of Factors Raised per Theme



Significantly, although one theme is mentioned by all thirteen participants, not one individual factor is considered by all of the thirteen participants (Table 12). Although this research assumed that heterogeneous of awareness and priorities existed, this lack of consistency across a group of firms, which are competing in the same industry and have all entered into the industry during a similar period, is surprising. This may have implications for research with participants across dissimilar industries, where the results would likely be even more inconsistent. A more detailed discussion of these seven themes will now follow.

6.3.1 New Zealand Made

Being New Zealand made was not only one of the key aspects found in the descriptive brand data, but was also raised in the interviewee-generated themes. Two clear perspectives emerged from these responses. First, New Zealand made is seen as a resource that aids in the differentiation of the firm and its product. Second, there is

recognition of the limitations to being New Zealand made. In the first perspective, New Zealand made was viewed as being an aspect customers were looking for. Interestingly, only one firm, SD5, asserted that New Zealand quality exceeded that of Chinese made products, whereas three firms across both the first and second theme (SU2, SD4, and LU2) mentioned that China produces products of comparable if not better quality than New Zealand made.

The second perspective discussed the challenges associated with being New Zealand made. These responses covered a number of factors; but underlying these was recognition that to manufacture in New Zealand, a firm has to expect a level of resource constraint. The general trend seemed to be that by manufacturing in New Zealand a firm had to accept that the firm would be restricted to a certain size and that growth would need to be closely monitored so as not to exceed capability. Significantly, only the larger firms, who do their own manufacturing, had a slightly more positive perspective, with LU2 asserting that there is no reason that manufacture cannot be kept in New Zealand. In a different approach to most of the participants, LU3 noted that New Zealand made does not require the fabric to be New Zealand merino wool, and actually viewed the aspect of wool's origin as one that most customers would not necessarily notice.

Zque™, the branded wool from NZM was only specifically mentioned by two of the participants. To maintain the confidentiality of the participants the specifics of which firms discussed this cannot be disclosed. However, the two firms were split on their opinions of the perceived value added by this resource. The first firm believed the Zque™ brand aligned with their ethos and as such was suitable for their needs. On the other hand, the second firm felt that the Zque™ brand did not offer value for their firm within a New Zealand context (Anon.). Although it is interesting to note the low level of utilisation, it is possibly not surprising given around 80% of the wool sold through NZM goes to international buyers. This aspect is closely related to another of the seven discussed below – Supply.

To summarise, across the range of responses to the New Zealand made theme, it is apparent that all firms perceive their being New Zealand made to be something that adds value to their firm. However, it is clear from the above firms' perceptions, that there is a range of limitations to the value adding ability of being New Zealand made

as a resource and capability. Surprisingly however, none of the firms appeared to recognise the widespread use and availability of the New Zealand image and story.

New Zealand Made – Differentiator

“It’s about offering quality and a product that is made in New Zealand. That’s really important to us, to make it here and support local business or national business.” – SD1

“We have to sell the difference, and part of that boutique experience is that it’s made in the South Island of New Zealand.” – SD2

“It’s produced and designed and everything, and I think Icebreaker gets around this by saying designed in New Zealand, but ours are actually made in New Zealand. They are designed in New Zealand, we are made in New Zealand.” – SD3

“Everyone who has come in is gobsmacked about the fact that it is made predominantly in New Zealand. That is a huge, huge opportunity and selling point we have to latch onto. We’re not prepared to compete with China with price but we will beat them with quality every day so that’s our selling point.” – SD5

“It can still all be made over here, it’s still New Zealand production. Eventually it may well be that [we have to move to China], I mean China is not going to be cheap forever. They’ve got the best technology and they’ve got beautiful machinery and all the best of it over there and you can organise that some of that can be made overseas. But you don’t want to lose the sight that it is a New Zealand product and to me that is very very important.” – SU2

“We wanted to make our own product and make it New Zealand made and New Zealand merino.” – MD1

New Zealand Made – Constraint

“I would say the only thing that saves made in New Zealand is some people and the better tourist shops, they are pleased to have made in New Zealand. But it is becoming more and more difficult and that’s all there is to it.” – SD3

“We really like supporting the industry. The whole globalisation thing to us ... maybe it’s a way of the world but you look at things and maybe it’s why the world is becoming unstuck at the moment. They go on about how we have to increase our exports and our balance of payments. Why don’t we concentrate more on making stuff here? If you want good stuff out of China, you still pay for it. The problem we come across is it’s all the real cheap stuff which pulls everything else down.” – SD4

“If you want a big global company it isn’t likely that you are going to be able to produce it in New Zealand. So if you do want to be a New Zealand made brand or label, then it is going to be a little bit more boutique.” – MD2

“[The goal is] to keep the business at a size that we can continue to always make in New Zealand, but at the same time to be able to grow enough to be able to survive and move forward as a business. There is quite a fine line you know, there’s not a huge amount of margin by being New Zealand made and because of the size runs that we do, it is quite an interesting balance to have enough money to grow the business and move it forward as well” – MD3

“I defy anyone to go into my shop and look at my retail prices and compare them to other brands of comparable quality and then come back and tell me why we under price so many Chinese made brands. So I don’t think there is any reason why we couldn’t maintain manufacture in New Zealand.” – LU2

“We constantly get people telling us about how great it is ‘you’re making your wool [products] still.’ I don’t think people will pick up where the fabric comes from, I don’t think they ever have. Until [Fabric supplier] started branding that and there is a tight knit group of people who associate, who actually love New Zealand merino fabrics, I’m not sure how many of those shop with us to be fair.” – LU3

Zque™

“There isn’t a lot of brand awareness, I don’t think, at a customer or value added customer level with Zque™. I don’t think that there is much understanding there.” (Anon.)

6.3.2 Expansion

Naturally, expansion was discussed in two distinct ways: domestic expansion and international expansion.

Across the strategic groups, only one participant in each group discussed expanding domestically. Interestingly, all the participants that mentioned this theme held similar perspectives. Domestic growth was recognised as something they all wanted to achieve; however, each one identified different reasons as to why they were not growing at a faster rate. For SU1, it was apparent that they saw themselves in a ‘Catch-22’ position. For them to be able to afford to grow, growth would have to be substantial enough to ensure that growth was profitable. SD1’s reason was closely related to the above theme in regards to the size restrictions of being involved with New Zealand made. Although holding high aspirations, SD1 believed that if they grew too much, they would then enter into a mass produced market, somewhere they are uncertain they want to go. MD2’s and LU2’s responses both discussed the importance of closely controlling their growth, with their reasons relating back to the competition and finance themes covered above. For MD2 the decision to control their growth is based on ensuring that they do not enter into aggressive competition, while that of LU2 is based on retaining control of the firm. These reasons, together with the fact that only four firms discussed domestic growth, indicate that across the participants there is a generally low level of aspiration for domestic growth, which runs counter to typical assumptions about competitive advantage and entry.

It is noteworthy that a similar story is presented by those participants who discussed international expansion. Although a number of firms discussed expanding offshore, all of the participating firms were active only in the New Zealand market at the time of the interviews. SU1, as has already been discussed in the finance section, was unable to expand overseas due to a lack of capital; however, a further five firms articulated factors which have hindered their expansion into overseas markets. For

these participants, offshore expansion has not yet occurred as it is more complex and difficult than they had envisaged. The opportunity to reflect on this in the interview saw the notion of naivety raised (SD1 and MD3). SD2 though, in a similar vein to SU1, discussed the financial risk involved in international expansion, which in collision with the Global Economic Crisis led to them retrenching back to New Zealand. It is also worth noting that of the firms indicating international expansion, three of the Small Downstream firms (SD1, SD2, and SD5) mentioned key contacts they currently have in specific international markets. These contacts formed the basis of their aspiration for international expansion. Noteworthy among these three firms is SD5, who have not yet made concrete plans to expand offshore, but who mention both an international market in which they see an opportunity and a market in which they have a contact. Unfortunately, these are different markets.

What is apparent from these responses is that the participants' approaches to international expansion are to some extent naive, a notion used by a number of participants themselves. This naivety seems to run counter to an underlying drive to expand internationally, which stands in contrast to the general attitude towards domestic expansion. This difference may be connected to the New Zealand merino clothing industry's low barriers to entry, a factor that was mentioned in the industry profile as well as being recognised by LU2 and LU3. The low barriers to entry, together with the low level of drive for domestic expansion, and the subsequent ad-hoc way in which the firms have approached international expansion, may be indicative of an opportunistic and ad-hoc approach to expansion in general.

This ad-hoc approach is further supported by the participants' approach to their business practices, with only two participants (SD5 and LU2) specifically mentioning the existence of formal business practices. Three other firms (SD1, MD2, and LU1), identified new distribution strategies for supplying product to their distributors. By approaching the distributor relationship with a more flexible approach, these firms were able to increase their distributor network in what has been a very difficult economic climate. Although these business practices indicate that a certain level of awareness of good business practices is present within this sample, they are not widespread.

Expansion Domestic

“Always I’d like to grow, but the economics of it, the employment laws just kill it, absolutely kill it. I’d only be able to do someone on an outwork or contract basis. Because, if I was to actually employ anyone, I’d have to work an extra 35 days a year at no cost in order just to pay their annual leave, their holiday pay, bereavement leave, sickness leave, all that. And I don’t want to have to give up 35 days of the year, my weekends, for nothing.” – SU1

“We could probably get ten thousand a week of one item, but any more than that I don’t know. I don’t think we would ever do that anyway, because then you get into that mass producing stuff, because then it loses its value I think.” – SD1

“I’d sooner be smaller and do it right and grow slowly, than go out there and be highly aggressively competitive with somebody else and be totally worried about what they are doing.” – MD2

“Growing a business is always a juggling act. We have grown about 20% per annum and that is a reasonably controlled thing. We certainly could have grown a lot faster but my wife and I still retain 100% ownership of the company, and that’s always the bind. If you want the option to grow quickly then you’ve got to take in shareholding capital and we’ve never wanted to do that.” – LU2

Expansion International

“I suppose being young and naive is a great asset for Kiwis when you go offshore to a certain extent but there’s a whole lot of factors that start coming into play.” – SD1

“We’ve kind of pulled back from the US because it’s such a major financial investment and the recession has just hit it so hard. We thought our dollars were better spent camping into New Zealand further for a few years and riding out the wave and then going back when things turn around.” – SD2

“I’ve realised it’s not as easy to export as what I [thought]. The naivety of when you first start a business, the change to now, I guess I’ve got a lot more

understanding of what needs to happen. We could have jumped into a new market and not done it properly, it would have been really detrimental to the whole brand, so I guess that whole strategy of slow growth is really important.” – MD3

“Trading between Australia and New Zealand, while it sounds very simple, there are quite a lot of complexities. Particularly when you have got a daily ordering system, you’ve got some products that are actually exposed to tariffs going in, some that don’t, you have got rebates... once you’re at a critical mass it’s good but when you are just two, four stores it’s just a pain in the arse.” – LU3

Barriers to Entry

“I actually think it’s a really easy industry to be involved in, and largely because in the time we’ve been involved merino has been selling itself.” – LU2

“It is a low entry point industry. In terms of capital investment anyone can enter, anyone with a sewing machine can get into the industry.” – LU3

Formal Business Practice

“Probably 12 months was spent on branding and our visions and goals and things like that but a lot of those aspects of the company were never utilised in the first stage of the company. We just started to bring those aspirations to the fore now.” – SD5

“The last three years probably 30% of our time has been spent on developing a solid system ... everyone has a manual and it’s a constant work in progress and the ultimate aim is ... that someone can step into your job, pick up the manual and they’ll be able to do your job perfectly.” – LU2

Distribution Strategy

“We said to them that we’ll take a more flexible approach, you can purchase from us in smaller amounts during the season so (a) it doesn’t have a huge impact on cash flow; and (b) you always have new things coming into the store. And if you need to re-stock at any point, it’s not like you are going back

to the overseas supplier and they are like, 'sorry we've done it and that's it'. So we can cater to that, so we've got that more flexible approach. So that's where we are different, it's more the business end of the company.' ... "That's been a challenge for us, to actually educate them to do business a little differently, give it a try." – SD1

"When we started, we did know that a lot of the customers that we dealt with in the past had some supply issues in the market, so that's been a really strong point for us to make sure that they can get it... We offer end-to-end prices, so we offer great product, we offer it in a timely fashion, and we also have fantastic production planning and the end-to-end process." – MD2

"We don't do indent so they are able to buy the first quantity of garments in a range and replace them as they sell them." – LU1

6.3.3 Developing Capabilities

Although a number of capabilities are noted in some of the other themes, such as New Zealand made for example, this section covers three specific capabilities, which relate to the firms day-to-day running. They are Colours, Design, and Manufacture.

Colours

The theme of colours was a very interesting one, with nearly all of the small to medium sized firms mentioning it. This theme related to the firms' ability to produce garments in a range of colours, whether from the supplier's stock colours or through mixing their own. There is a clear progression evident in the responses made to this theme. This progression indicates a significant relationship between the ability to produce a range of colours and the firm's size and available resources.

The smaller firms all indicated that the high level of required resources, that is, money and order minimums, constrained their ability to produce individual colour ranges. The smaller firms' responses indicated awareness of their resource limitation and their actions to counter this limitation. Only one of the small firms (SD1) connected this limitation to the necessity of creative design:

“I don’t do everything that somebody asked for because generally, if someone says, oh they want a garment and they say have you got any colours?, so you do the colours and they come back and say oh, I’ll take black.” – SU1

“Their minimum for dyeing has got to a point where I can no longer afford to buy fabrics from them in my own colours. I used to develop all my own colours with them, with their lab up there, but now their minimums are so high that I would have to invest something like \$100,000 to \$150,000 in fabrics and that fabric would keep me going for three years for one shop.” – SU2

“We just use standard colours, brown, black, red, and carry them all year long.” – SD2

“We like to have our own colour range as well.” – SD3

“We can buy minimums which is much less, that 500 metres per colour type thing. So we’re working with a limited range of fabric and a limited range of colour, so we have to be really creative in our design.” – SD1

Once a firm grows to medium size, it would appear that their resource base increases to the point that they are then able to afford their own colours. Although capable of producing their own colours, this capability is still accompanied by resource challenges.

“So while a lot of people will run fabrics from stock, so they don’t get a say in the colour, we run 75% of our own colours and we’re meticulous at getting that colour right. So that’s just one of the desirable aspects of the range: that it’s very colourful.” – MD2

“We have got to a stage I guess where we can do our own colours, but even then the minimums sometimes can be challenging on different fabrics.” – MD3

Perhaps unsurprisingly, none of the larger firms mentioned colours, possibly indicating that once a firm reaches a certain size the related resource constraints are less substantial and this capability is no longer such a concern.

Design

In the industry profile, design was indicated as one of the key capabilities differentiating a firm or product within the New Zealand merino clothing industry. However, in the interviews just over half of the firms, seven of the thirteen participants, indicated that they had no professional designer or design experience. Of the firms that did have a design capability, it is understandable that both Small Upstream-integrated firms (SU1 and SU2) had design experience, given that the owner-operator personally design and manufacture the clothing. However, in contrast, only one (LU3) of the Larger Upstream-integrated strategic group held a professional design capability. This absence of a professional design capability in the Larger Upstream-integrated firms is all the more noteworthy given the majority of the Medium Downstream-integrated (MD2, MD3) strategic group have design capabilities. This left SD1 as the only firm in the Small Downstream-integrated strategic group with a design capability. This therefore leaves the majority of the firms (SD2, SD3, SD4, SD5, MD1, LU1, and LU3) revealing that they had no professional design capability. Only the quotes that indicate the lack of design capabilities are provided below, as these quotes give a deeper understanding of the participants' perspectives of the design capability.

No Professional Design Capability

“I do the design and they do the pattern. I probably give more of the credit for the design to her, because she knows more about fit, but I do things like pencil drawings. And sometimes I’ll send her 2 or 3 pieces of my own clothes, so this is the length, and I want the neckline sort of like this. There are a lot of rough things that go on.” – SD2

“We have had the same style for [a number of] years now. It has not changed.” – SD3

“I’m not a qualified designer or anything but you know I design the clothes.” – SD4

“When we get on our feet, we hope to get a designer in.” – SD5

“Designing was all new to me. But I don’t know if you ever get that one nailed. I don’t want to be an Annah Stretton. She does a fantastic job but I’m not creative like that.” – MD1

“It’s just making it up as we go along.” – LU1

“It’s a largely non-professional design team.” – LU2

This raises an interesting point in regards to the importance of design for the industry. From the industry profile, it is clear that Jeremy Moon (CEO of Icebreaker) is promoting the importance of design for the industry to move forward, yet in these interviews, it is clear that for the most part, there is no professional design capability for a large number of the firms within the industry. Furthermore, two of the participants (MD3 and LU3) illustrated an opposing view to Moon’s push for an increased focus on design. First, MD3 states how New Zealand does not necessarily need more designers but rather has a shortage of skilled manufacturers:

“All the people that make [clothes] in New Zealand ... are all in their 50’s, you know 40’s, 50’s, 60’s and as they disappear out of the chain, either retire or move on, it will be interesting to see [what happens]. There are no young people coming out wanting to be sewers these days, they’re all coming out wanting to be designers, so those skills aren’t really being passed on.” – MD3

LU3, on the other hand, indicated that the designers they have employed have lacked a number of practical abilities:

“We push designers out of designer school that have this wonderful expectation that they can come up with this design... I think the last guy came in with an idea for some underwear and I sat down with him and said, ‘how much do you think we could retail these for?’ And I said, ‘so that’s twice [leading brand’s] price and how do you think we will sell all of these? So what do you think you are going to get wholesale for these? How much do you think they’re going to cost?’ In the end I think he probably thought I was a smart arse, but invariably what I was saying to him was you won’t make any

money and what you end up with is a whole pile of stock, all the risk, and you've got no guarantee you'll get any exposure.” – LU3

It would seem that again an ad-hoc approach is utilised by at least half of the firms for their design process. This could therefore question the importance placed on design capabilities as discussed in the industry profile, or indicate that design is an imitable capability.

Manufacture

This theme was discussed from two different perspectives. The first was, as to be expected, as a capability. The second perspective was discussed in regards to concerns with the supplying industries.

When presented as a capability the responses were logically limited to the Upstream-integrated firms. It is interesting to note that despite the vast size difference between the small and larger sized firms, both groups tended to approach the discussion of manufacturing capability from the perspective of flexibility. For each of the firms (SU1, LU1, and LU2) the capability of manufacture was associated with flexibility, with the sole exception of LU3. LU3's comments would indicate that they are possibly reaching a size at which their current capacity is no longer suitable for their demand. LU3's comment, together with the positive perspectives presented by the other three firms, may indicate that the value of the manufacturing capability evolves with the growth of the firm. Such a notation could indicate that, some of the resource constraints indicated in the New Zealand made theme might not apply if the firm owns the manufacture process.

The second perspective discussed under this theme raised concerns relating to when the supply industry moves offshore. The concerns covered two aspects. The first was raised by SD3, in which they were facing difficulties in finding New Zealand based providers for specific value chain activities. The second was closely related to the New Zealand made theme, in which most firms perceived their New Zealand made status as adding value to their firm. For these firms, if key suppliers move offshore, this value may be lost. For MD3 and LU2, this challenge was one for which they did not yet have an answer.

These perspectives indicate that the vertical integration through ownership of the manufacturing process offers more control in regards to constraints outlined in the New Zealand made theme. However, it would also appear that the firms, whether upstream or downstream integrated, are reliant upon their supply industries for their New Zealand made status and the associated perceived value.

Manufacturing Capability

“Another woman came and tried it on and wanted a different size, so they were coming back at three in the afternoon or something, so [they] rang me and said ‘oh we’ve got this lady wanting this size’, and I said ‘yeah, ok’. So I dropped tools, changed all the threads over, cut it out, made it, raced it in.” – SU1

“We’ve got a really flexible workforce. Because they’ve been there over years and years, we’ve encouraged them to be multi-skilled. Because its only a small team, and we’re putting out large volumes sometimes, so we have people able to move from one area to another just to fill gaps and I think that’s crucial. We can do well, we don’t have waiting times.” – LU1

“Lead-in times and production space was always an issue and it was always a concern of the breaking up of the New Zealand clothing manufacturing industry. That always really concerned us and at one stage, we were thinking we might not be able to retain the option of manufacture in New Zealand. We might have to lose that. So having your own production facility is great, you feel really secure about that.” – LU2

“People have often asked, ‘why do you manufacture here?’ ‘It must be great, shorter lead times’ and such and such. But the most flexible resource in terms of garment supply is offshore by a long way. Because what actually happens is your flexibility local here, is only flexible when you’ve got spare capacity. It’s very inflexible to increase, and it’s very inflexible to decrease.” – LU3

Supply Industry Awareness

“The dye house is difficult now. See that’s another difficult thing: getting your merino dyed in New Zealand now is really difficult, because the dye houses

have all closed down. So that's another problem we're all banging our head against." – SD3

"It will be interesting to see if we [are] forced to get into a position where we are actually forced to make somewhere else because there isn't the people to make it here or there isn't the fabric available here anymore and you have to go to the big places." – MD3

"One thing we always said is really challenging is if [fabric supplier] stopped knitting in New Zealand. That would really give us a problem because we're so passionate about the New Zealand knit," – LU2

6.3.4 Relationships

The relationship-based resources were represented by six different relationship-based themes. Overall, a number of logical trends became apparent across these resources. Relationships with C.M.T. were only identified in the Downstream-integrated firms; similarly, relationships with distributors were limited to two firms that only use distributors to retail their product. Interestingly relationships with the bank were only mentioned by the Larger Upstream-integrated firms (LU1 and LU3); however, this does align to the data noted on the financial founding of the firms. LU3, however, recognises the need for a capability to be able to “sell yourself to the bank” to enable the firm to manage economically difficult periods more easily.

Relationships with the fabric supplier were a little more dispersed across the participants (SD4, SU1, LU1 and LU2), although again the Larger Upstream-integrated firms were slightly more represented in regards to this relationship. For LU1 the supply relationship is included here as their relationship closely mirrored that of other supply relationships mentioned, however it must be noted being a knitting mill, this relationship was with a yarn supplier rather than a fabric supplier.

The relationships with the customer were discussed by four firms; however only two participants (SD4 and MD1) indicated a formal customer relationship management (CRM) strategy. For both of these firms, their CRM was by way of maintaining a database of customers.

The broader relationship with the community as well as the wider reputation of the firm was also discussed by the participants. The relationship with the community as a resource for the firm was raised by four firms (SD2, SD5, LU1 and LU2). The support of the community proved to be a value-adding resource through its decreasing the need to advertise, and though encouraging a supportive customer base. Logically, this again was an aspect mentioned by two of the Larger Upstream-integrated firms. This resource though was also critiqued by three firms, where they felt that the community support was fickle and as such was not a resource that held lasting value or which could be relied on. Reputation showed no obvious association with any specific strategic group, with only three firms from across the participants mentioning it briefly as a value adding resource.

Although the accumulated relationship-based resources account for a significant portion of the resources mentioned, no single relationship in particular indicates a significant importance for the industry as a whole. A slight trend appears to be that the larger a firm is, the more important a range of relationships are. However, a larger sample would be needed to be able to confirm this.

Table 13: Relationships

Relationships	SD1	SD2	SD3	SD4	SD5	SU1	SU2	MD1	MD2	MD3	LU1	LU2	LU3
Banks											X		X
Suppliers				X		X					X	X	
C-M-T Manufacturers	X		X						X	X			
Distributors						X			X				
Customers						X						X	
Formal CRM				X				X					
Community		X			X						X	X	
Community (Limitation)	X		X										X
Reputation			X						X		X		
	2	1	3	2	1	3	0	1	3	1	4	3	2

Relationship – Banks

“We’ve been here for quite a while and we’ve built a reputation, so we’re known to the bank and that sort of thing helped.” – LU1

“You’ve got to earn people’s respect and you’ve got to earn the market’s respect. You’ve got to be able to have a bank that’s on side and you’ve got to know how to sell yourself to the bank and you’ve also got to know what the bottom line is. You know you can’t just manage the good times, you’ve got to be able to manage the bad times too and it’s much easier to manage when things go well than when it’s tough ... there is always a solution if you look hard enough and if you can get the support of others around you, you can get there.” – LU3

Relationship – Suppliers

“I got a phone call this morning... because I’ve built up a really good rapport with the ladies in the factory/outlet side.... I feel really privileged that they’ve rung me first before they’ve rung anyone else. I just get on really, really well with the ladies down there.” – SU1

“We have just built up a relationship with [supplier] and we like using them.” – SD4

“That relationship with the [supplier] is crucial to us, and we’re crucial to them too. There’s a definite support thing going both ways.” – LU1

“The relationship with [supplier] is very important to us.” – LU2

Relationship – C.M.T. Manufacturers

“You kind of become a big family, although you know there’s that payment side involved, but they have an input on the design factors, on how it’s produced, really good ideas, and once you start relating to people like that you sort of get a better product than you initially thought you would... We want them to grow as much as we are growing so that’s what we say to them. ‘The more we grow, the more you grow, and when you’re stuck somewhere we can get you to the next point; whether we get other people involved or

however'. So we try to take that more holistic approach rather than just saying, 'You are making that for us.'" – SD1

"Relationships were great, the C.M.T. factories. I started with a different one [than] the I use now, but getting those first people to work with me when I was pretty ignorant, I didn't have the language, and they suffered through me, and I would be making very small quantities. I was very surprised at how helpful they were, I mean they're in business and to deal with me couldn't have been easy and I'm sure it wasn't profitable and they stuck with me and they helped me. The first one I was with wasn't actually a good fit and they agreed and said, 'why don't you talk to this other guy because he is going to be able to take you to the next level,' kind of thing..." – SD2

"I don't want to be a manufacturer, so I just really need to make sure that I have really good relationships with people, and they for whatever reason really want to do a good job for me." – MD2

"Having the factories here and being able to work closely with them, and screen printers and embroiderers and all those things, we could learn from that and make sure that our quality was going to be kept up, and develop those relationships with those people." – MD3

Relationship – Distributors

"There are three key people... and one of us has to have a key relationship with [the Retail Distributor] and it's the way things happen and it's the way you keep relationships and that's just how it works. I'm uncomfortable if we have a 'bit order' and we haven't got a good personal relationship with one of those people." – MD2

"They may use me to draw the customers in, but that's fine. It works both ways, you know once the customer gets in the shop they look around... They may buy me, or they may buy [Retail shop's brand] or they may buy both." – SU1

Relationship – Customers

“The biggest thing you’ve got to remember is you can’t always do what you like, you have to do what the customer likes. So it’s listening to what the customer likes, which is why I talk to both shop managers... People are coming in looking for it now.” – SU1

“We’ve always been intensely connected to our customers and the longer we go and the more we cherish that. And so we’ve always followed our nose, we never go and do what other people do, we do what we see our customers in front of us wanting.... Our customers are our friends, even with the tourists, we see our customers as being directly related to us. Every customer that leaves our shop gets my e-mail address and a lot of them are known personally.” – LU2

Relationship – Customer Relationship Management (CRM)

“We have such great support from people who are [Brand] customers. I guess we have to make sure that we maintain them and grow our database.” – SD4

“We had a big database; so we could travel down there, on our show trips and sell for the day... You’d work out how many customers you sent [invites] to, how many came in and how many bought, and how much they bought ... So that would be a direct factor, you are certainly not going to go and open a shop where you don’t get the support.” – MD1

Relationship – Community

“I think the community has been hugely supportive of me, very supportive. They come in here and buy from me, even if they don’t need it or want it. I really feel like they have embraced the company and they’re really proud that we’re here and doing what we’re doing. A lot of people from merino stations in the area come in; just to see what we’re doing, they introduce themselves, and talk about the industry and the fabric. If they have other people staying, they bring them in and show them what you can do with it, so I feel like the community has really supported me.” – SD2

“... great community spirit in [town].... They have embraced the concept.” – SD5

“We’ve got a lot of community support. We don’t have to advertise far and wide these days; our factory shop is just visited all the time.” – LU1

“The fact that you’ve got a community around you that’s very aware of you... if you’re willing to work hard, and you look like you’re contributing something to the community you get enormous community support. You really do – everyone backs you up. If they get visitors, everyone tells them go and buy there, you have got to go buy there.” – LU2

Relationship – Community (Limitation)

“We thought that there would be some more loyalty around the whole New Zealand made thing, and it’s starting to swing that way a little bit now, but not really, no.” – SD1

“They’re very loyal... But it is also true now that as things get tighter, they may like to buy ours but if the Warehouse is selling one for \$29.95 and ours is \$55, regardless of whether we’re comparing apples with apples, they’re going to go for the other one.” – SD3

“How much would you say it’s a community thing when you put clothing on sale and your sales go up three times? Do not touch the prices, don’t touch the products and get all these people coming in saying, ‘God, if I knew you... why are you closing down, you were such a good business and that.’ ‘You don’t come and shop here!’” – LU3

Relationship – Reputation

“We’ve got a reputation around the country ... there’s definitely a resource there.” – LU1

“We’ve had a reputation of quality.” – SD3

“Our reputation in the market was really key.” – MD2

6.3.5 Supply

In addition to the resources and capabilities covered above in relation to suppliers, further aspects were articulated by a number of participants in relation to the actual supply and attributes of the merino wool itself.

Most firms that raised this theme (SU2, SD2, MD3 and LU2), indicated a concern regarding the continued supply of the merino wool, or in the case of LU2, merino wool's position as a "staple product" in the clothing industry. The firms represent each of the strategic groups, and indicate a level of long term thinking prior to entering the industry. Furthermore, this factor signifies that these firms hold an awareness of the effects of the New Zealand merino wool industry on the New Zealand merino clothing industry. However, this awareness seems to be limited to only four of the thirteen firms.

The influence of the merino wool industry is also closely related to a frustration at the lack of consumer awareness of the differences in merino wool. Surprisingly this factor was limited to only three firms, even though it is likely that this represents one of the key difficulties in differentiating quality merino wool from the cheap merino available in budget chain stores.

Product Supply

"We looked at the security of supply." – SU2

"A bit concerned about the supply and the price of the merino fabric, I wanted to make sure that we always used the very best merino we could find." – SD2

"How much merino is going to be available in the market in New Zealand, whether we are going to have a shortage or not and how vulnerable we are to that supply? ... What happens if farmers have a bad year? Or if we have a natural disaster? Or if prices get driven up so high by exporting that quality wool that would have been supplied to the New Zealand market. A) Maybe there isn't much available. Or b) it just becomes too expensive for companies such as ours to be able to purchase it because we don't, by the time we put those other costs on, it just blows it out of the market." – MD3

“The question there was whether merino was a flash product or whether it was going to become a staple product. I guess it’s only two years ago I was really confident [that] ‘yeah this is a staple product, it’s established now’... this is a product that I think will be in the market forever, unless miracle fibres come through.” – LU2

Merino Awareness

“Either you’re selling superfine merino, or you’re not selling superfine merino. I think, all that other stuff is so blurred now that unless you make some serious discrimination. Between this is superfine because it’s, let’s use 20 microns, 20 microns and less is superfine and then you should say there is another word for any other merino. That way, I would think, there would be a premium you could get for those top ends.” – SD3

“There are now so many grades of merino out there.” – LU2

“Merino is such a confusing and complicated product, you can get it from 32 microns back down to 13 microns and you go ‘Shit, the 13 micron is a totally different product to the 20 micron.’ You got a feel for the different micron counts, its different fabrics, different textures.” – LU3

6.3.6 Customers

At the other end of the value chain, a number of firms noted changes in the market, as well as changes in their customers’ mentality. In comparison to the theme of the relationship held with customers, this theme looked at the customer from a much more high-level perspective. This theme specifically covered conservation and the environment, and changes in target market and customer mentality.

Conservation and the Environment

Given the increased awareness of sustainability and environmental concerns discussed in the industry profile, it was somewhat surprising that overall only six participants (SD1, SD3, SD5, MD3, LU2, and LU3) discussed this theme. Of the six firms, only two (MD3 and LU2) specifically outlined and discussed the work that they do for the environment. Further to discussing the work they do, MD3 and LU2, together with LU3, also discussed the effect of green washing. Additionally SD1 discussed the

origins of synthetic fibre, and SD3 and SD5 discussed the importance of education and the New Zealand clean green image.

Although these themes were not specifically discussed in relation to specific customer groups, it was clear that the perspectives were directly related to customer awareness of environmental concerns. Although there is a level of awareness in regards to these concerns, it is not widespread across the participating firms. It is interesting to note that the more active firms seem to be those that are in the medium to larger sized strategic groups, with the Small Downstream firms displaying a less integrated approach. This may indicate a relationship between an active engagement with environmental concerns and resource base. Likewise, for the smaller sized firms, the promoting of environmental awareness may offer a differentiating and value-adding resource.

Conservation Work

“I’m pretty happy with some of the conservation projects and things like that that we have started to get involved in. Since doing that recently I think that has definitely made making clothes seem more exciting to me, just the idea of being able to make a difference and give back a little bit to the environment as well.” – MD3

“I’m heavily involved in a lot of conservation work I like. I personally think any conservation goals in New Zealand are going to have to be supported by business.” – LU2

Green Washing

“I just like the idea of being able to make it real by actually using design in a positive way to be able to create some funds and then give that back to the inspiration that I’ve received.” – MD3

“As a company we never went out there making huge environmental claims. We did certain things and we had links to things we supported on the site environmentally, but we’ve actually pulled away from environmental claims and largely because I think so many companies have made so many

transparently fake environmental claims, that I actually think that environmental claims are now counterproductive.” – LU2

“When you talk about sustainability I really question whether people are doing it for genuine reasons or is it actually a market edge. It has to sound right ... to get the extra dollars at the other end... I think we all have a vision of actually leaving the planet [in a] better condition than what it was, but the reality is no one will pay anymore for it. When you have the New Zealand product in store and you have an imported product and you can buy an imported t-shirt for \$29.90 or you can buy the New Zealand one for \$39.90 which one do they buy? ... What that tells us is that most people accept its ok, or don't want to know.” – LU3

Environmental Education

“When I went to the States, part of one display was plastic bottles filled into this huge container. ‘When we melt these down we can produce this garment’, and for me that just felt really wrong. I don't think I realised actually how synthetics were made ... and that we are actually wearing that on our body. How good is that for us? Admittedly we do use some blend, so we use some aspects of nylon with the merino, but the merino itself offers such benefits to people.” – SD1

“I think probably we are going to have to put in a bit more work because it is starting to get out that we're not quite as clean as we [say]. Particularly Germans... are actually green, in terms of emissions and things like that they are way ahead of us. And they do know... and they really get upset even if it's only one little corner of New Zealand and one little thing that's happening. So I would say one of the biggest things for tourism here is you've really got to push this greenie thing.” – SD3

“That's the story we have to put out there. We have to promote the fact that it is fireproof, it is a carbon storer, and probably the environmental side of the story, the environmental sustainability... Training the world about the reality of how sustainable the qualities of [merino wool] are, because you know even if funny little countries with their little mob of sheep people are making

garments out of it, it's a great story - the fibre story, it's part of the cultural heritage of countries. We are no exception.” – SD5

Changes in Target Market and Customer Mentality

Changes to the target market were primarily limited to the changes in the tourism target market. As noted earlier the majority of the participants purposefully target the tourism market. However, of the thirteen firms interviewed only four noted important changes in the tourism market. Recognition of an increased importance of domestic tourists, as also noted in the industry profile, was limited to the medium to larger sized firms (MD1, MD2, LU1, and LU2). LU2 differed slightly in that they noted the demographics of the tourists visiting New Zealand were changing towards an increase in budget travellers, with decreases in the high-spending travellers.

Although these changes in one of the key target markets were only noted by medium to larger sized firms, changes in consumer mentality were noted by the Small Downstream-integrated firms (SD3 and SD4). Interestingly the comments from these firms indicated recognition of the effect rather than the cause of the change. For example, the price sensitivity could well be related to the comments of LU2 above, given that both SD3 and SD4 defined tourism as their target market.

This price sensitivity is also likely closely related to a ‘Discounting’ factor discussed by LU2 and LU3. ‘Discounting’ is an interesting topic as it is only articulated by two of the larger sized firms, and they view it from different perspectives. The perspective of LU2 indicated a strong relation to the aspect of commoditisation and heightened competition as developed in the industry profile. Specifically LU2 noted the increased discounting by brands such as Icebreaker as an example of how firms are finding it more difficult to move stock. LU3’s perspective of discounting on the other hand was more aligned with the increased price sensitivity discussed above.

Overall, this section has indicated that awareness of changes in the consumer markets is for the most part limited to the medium-larger sized firms. The responses of the participating small firms illustrate that they are able to notice the changes, though their size and resource constraints may limit their ability here to perceive the larger picture.

Market Changes

“I can pull up reports here and see where people have come from... most people are from travelling. They’re New Zealand travellers.” – MD1

“Our tourist market has had a huge increase in the [number of] New Zealand tourists roaming around the country and also an increase in Australian tourists. So that type of domestic tourist is incredibly important to us.” – MD2

“Since working in the factory shop, we see a lot of domestic tourists around and that’s the approach I’m taking with our customers now.” – LU1

“There’s a wind-down in high-value visitors. ... Last year record numbers of visitors entering New Zealand, massive increase in the Australian market and then very quietly at the end of the year of course Tourism New Zealand announced total visitor spending was down 4%.” – LU2

Customer Mentality

“We could make a garment \$10 cheaper. Effectively it will be superfine but there will be a lot of thick and thins in it, the way the yarn is spun is different, and it won’t have that silky feel. It’s just a decision we’ve made, and it’s probably not a very smart one as everybody buys on price now.” – SD3

“You just look at the \$2 mentality now. We probably do live in a throwaway society. You see people going into Glassons, girls are coming out with bags full, and they’ve probably spent \$20 or \$30.” – SD4

Discounting

“Directly over the last year or so discounting has become an issue [for] a lot of companies of course, where they play that seasonal game as more and more players come into the industry and a lot of companies who could previously clear stock quite happily have found themselves with an excess of stock that they need to clear.” – LU2

“When you go into one of our stores and they’re selling it for 40 bucks and it may have \$89 on it, it’s not because we actually want to help customers, it’s

because the customers won't pay \$89 for it, and you have to sell it at \$40. And it really aggrieves me every time we have to discount something we've lost that opportunity to sell it for full price and yeah, when you look at the potential of this place, we can do it so much better.” – LU3

6.3.7 External Awareness

The last theme is that of external awareness. This theme consists of factors outside of the firm's direct interactions, which are beyond customers and suppliers. The factors raised were: the impact of local government; natural disasters; recognition of the constraints of their geographic location; and lastly, though not surprisingly, the global economic crisis.

In general, it appears that the importance of the external environment is only perceived when events in this environment affect the participants directly. Affected participants would have had little ability to prepare for or mitigate factors such as the natural disasters New Zealand faced during 2010 (MD1) or the global economic crisis (SD1, SD2, SD4, SU2, MD1, MD2, LU2, and LU3). However, some prior knowledge in regards to the adverse actions of the local government (SU2) and the participants geographic location (SD3 and SD4) should be possible. This indicates that a certain level of external awareness is beneficial, though not enough to prevent factors from occurring. Notably, SD1 and SD2 perceived the global economic crisis to be a period of opportunity. The identification of opportunity in what is by its very name a crisis indicates an interesting capability borne out of such a challenge.

Local Government

“The city council, starting in May – June, has decided to dig up every road and footpath and creation here in [Town] and my sales just crashed. We decided a few weeks ago that we have got to get out of this because sales have dropped drastically.” – SU2

Natural Disaster

“We didn't know we were going to have an earthquake and you go to Christchurch and try and sell ... I went to [town name] when the stadium collapsed in the snow, trying to sell summer clothes, you know, no one can tell

you that. So things like that play a big part and they are at the moment.” – MD1

Geographic Location

“[Town] has not been able to lock itself onto what I call the main tourist trunk road because we are slightly out on a limbgenerally speaking we don’t have another thing that will pull what I call the wealthier tourists in.” – SD3

“We are four shops too far out of town, literally.” – SD4

Recession Effect

“We’re in a recession now, things have been hard” – SD4

“We have had a 20% increase, 20% – 30% increase every year in our store up until March 2010. And that is when the recession, the world recession started to bite.” – SU2

“Before this economic recession, we were really starting to rock, you know, with four different avenues of selling etc. So the affordability of having somebody in to help, like there was a girl in the office and the girl that did the design work, so that was great to have that expertise on board. But no, since the economic thing, I mean, that just goes by the wayside really.” – MD1

“The major issue has been in the last two months, and the steep decline in retail in the last six to eight weeks.” – MD2

“Recession has a bit to do with it. There is no doubt the last twelve months in particular are really flat retail times.” – LU2

“The recession... has been very much a period of actually just consolidating and trying to minimise any cash we have to put in to keep retail operating. It’s been tough. It has certainly been a lot slower than anticipated.” – LU3

Recession Capability

“We picked up those 15 or so stores during the last ten months. During probably one of the most difficult times in the world, that you could go out to the retail market and say ‘hey! How about you try us, we are really fun to

work with you know?’ and they are like ‘no’. They were, and they still are in bad shape, in terms of their mind-set and how the economy is. So the retail industry has definitely been impacted, but that’s allowed us to actually come up with new ideas and opportunities on how to work with them.” – SD1

“I think it makes you sharpen your business sense and your financial planning. Over the last year I have spent much more time analysing sales, both part and projections, and tightening spending. I think it makes you much more conservative. ...Really just cutting back all we can, cause it kind of feels like survival, just got to get through this period.” – SD2

6.4 Summary

This interviewee-generated themes section has identified seven broad themes within the 36 factors discussed by the participants. These themes indicate a number of perspectives, which contrast starkly with the expected perceptions based on the literature and the industry profile. For example, the view of ‘New Zealand made’ as a value-adding proposition was identified in the industry profile as being commonplace in the industry.

In addition to the conflicting perspectives, these themes have also highlighted that ad-hoc approaches are prevalent across the participants. These approaches are noticeable across the majority of participants and impact on a number of themes. This would indicate that an underlying factor exists that is influencing the participants approaches to their businesses.

The following discussion chapter will discuss these conflicting perspectives as well as explore the fundamental factors influencing the participants approach to their firms.

Chapter 7: Discussion

So far, this thesis has carried out two connected studies. The first analysed the New Zealand merino clothing industry by producing a profile based upon secondary sources. The second drew on the industry profile as the basis for a research design of a specific group of comparable firms, using semi-structured interviews to elicit responses from the CEO or owner operators of thirteen firms throughout New Zealand.

Drawing on the analysis and themes from both Chapters 5 and 6, this section will initially develop a comparison between the two studies. The key themes from the findings of the interviews and this comparison will then be explored. This will be followed by a summary of the methodological learning that these studies have highlighted and the implications for RBV research. The limitations of these studies will then be discussed, ending with a number of future research possibilities and a concluding statement.

7.1 Comparison

The two studies approached the same industry from different angles. Although a number of similarities between the two studies were apparent, overall the industry profile indicated surprising differences in perception between the two. First, recognition must be given to the similarities, in which the importance of the supplier was emphasised by both the interview findings and the industry profile. Likewise, the growing number and increased influence of cheaper merino fabrics was also recognised in both, although there was little recognition of the synthetic substitutes. The interviews also provided much more detail on the markets targeted by the firms than the industry profile.

However, the key learning points from these studies lie in the major differences, which can be separated into three specific categories. First is the contradictory perceived level of competitive rivalry in the New Zealand merino clothing industry presented by the two studies. In this case, there appears to be a wide divide between how competition is perceived by practitioners and academics.

Second, the industry profile illustrates the widespread nature of traditional merino differentiators, such as the properties of merino wool and the use of New Zealand’s image and story. However, the interviewees’ views of these differentiators conflicts starkly with those expressed in the industry profile. Despite the industry profile appearing to show otherwise, most of the participating firms felt that they were doing something that no one else was doing.

Lastly, the interviews found an ad-hoc approach to business. The effects of this appear in the comparison below, however, in general they relate to a number of findings outside of industry level factors. It would appear from the interview findings that this ad-hoc approach predominantly lies with the influence of the CEO’s long-term vision of the strategic direction and decisions of the firm.

Table 14: Comparison of Industry Profile and Interview Findings

Industry Factor	Industry Profile	Interview Findings
Competitive Rivalry – Number of Competitors	High rivalry suggested	Low rivalry perceived
Competitive Rivalry – Differentiators	<ul style="list-style-type: none"> • Few rare or inimitable differentiators • Design is needed to differentiate. 	<ul style="list-style-type: none"> • New Zealand made and Sustainability mentioned as key factors • Low level of professional design capability
Barriers to Entry	High threat of new entrants due to there being low barriers to entry	Only two firms note low barrier to entry
Supplier	Supplier power is high	<ul style="list-style-type: none"> • Supplier power is noted. • Relationships with supplier are recognised as important
Substitutes – Merino Substitute	High threat from increases in cheaper and poorer quality fabrics, as well as blended fabrics, being marketed as ‘merino’	Cheaper merino products recognised
Substitutes – Synthetic Fibres	Synthetic fabrics highlighted as a substantial threat	Synthetics only mentioned by one firm
Customer	<ul style="list-style-type: none"> • Three key markets identified: tourism; soft adventure; and sustainability. • Opportunities were apparent in the tourism and sustainability markets. 	<p>Six key markets identified, with the top three markets being the:</p> <ul style="list-style-type: none"> • Tourism market • 30 – 35+ market • Medium to high income market

7.1.1 “I don't have any competitors...”

It is apparent from the above summary that a major contrast between the industry profile and the interviews lies in the perception of competitors. According to the

industry profile, the industry should be facing a high level of competition. From the secondary sources used to form the industry profile, it is clear that both of the two major firms, Icebreaker (Lassiter III & Heath, 2005) and Snowy Peak/Untouched World (Stock, 2004), are very conscious of who their competitors are and what their competitors are doing. For example, Drysdale is quoted as saying that "There are seven [New Zealand] companies copying our designs" (Stock, 2004). However, based on their responses in the interviews, it seems that the firms that participated in this study do not perceive themselves as being in a highly competitive environment. Such a collective view of little competition is surprising and suggests a need to question some of the assumptions upon which competition, competitive advantage and the RBV are generally based.

This section will avoid the philosophical contemplation of whether competition actually exists if participating firms do not believe that they are competing in a highly competitive environment. Instead, a more fruitful approach may be to try to understand why this difference in competitive perception exists between the sample firms and the larger global firms of Icebreaker and Snowy Peak/Untouched World, as well as understanding the implications of this difference for both the New Zealand merino clothing industry and the RBV.

The research in this thesis centred on approaching firms that entered into the industry at a much later stage to Icebreaker and Snowy Peak/Untouched World and as such they are not operating near Icebreaker's and Snowy Peak/Untouched World's size and ability. Surprisingly, however, contrary to what would have been expected, there is little acknowledgement of either of these leading firms as competitors. The work of Chen (1996) illustrates that the level of market overlap can influence how one firm perceives another firm as a competitor. Taking Snowy Peak/Untouched World, for example, their industry boundaries would most likely be defined as global, with New Zealand representing only one of eight countries in which they operate. Given New Zealand's relatively small market size to Japan, one of Snowy Peak/Untouched World's primary markets, it can be assumed that New Zealand does not represent the largest proportion of Snowy Peak/Untouched World's business. Therefore, the small firms that operate in New Zealand are not likely to be perceived as direct competitors, whereas New Zealand based firms should conceivably perceive Snowy

Peak/Untouched World, with their presence throughout New Zealand, to be a large competitor. However, this view is not prevalent among the majority of the participants.

One explanation for this may be that the majority of the participants view the larger global firms as being so big and successful that they are in effect out of the participants' 'league.' In this way, it would appear that the participants view these global firms as an aspiration or a benchmark and hence do not perceive them as being a direct competitor. Although this may offer some understanding of the difference in perspective between the global firms and the participants, it does not explain the absence of perceived competitive rivalry, of any type, among the participants.

It seems that in addition to re-profiling the global firms as non-competitive entities, further altruistic or naive perspectives are taken to decrease the firms' competitive perspective of their domestic competitors. An altruistic perspective of 'there is room enough for everyone' was matched by a patriotic notion of 'if it is good for New Zealand, then that is fine by me.' Although the firms in this study have little or no contact between them, an altruistic perspective may inadvertently lead to a collaborating effect. Similar effects of not recognising similar firms as rivals have also been noted in the Scottish knitwear industry (Porac, Thomas, & Baden-Fuller, 1989). However, in the New Zealand merino clothing industry it may be that these notions are just a continuation of the above approach towards Icebreaker and Snowy Peak/Untouched World, used as justification for not feeling the need to be aware of the competition going on around them.

If these altruistic responses serve to mask the participants' lack of awareness of the competitors around them, then responses such as, 'we do not have any competitors' must indicate a certain amount of naivety. Possible reasons for this are considered in the following sections.

7.1.2 "I'm the only one doing what I'm doing...?"

In line with the absence of perceived competition, there also appears to be little differentiation between the firms. As discussed in the industry profile, the traditional differentiators have become highly imitable, with New Zealand merino wool and its inherent properties, and even the New Zealand story openly available to both New

Zealand based and international firms. The industry profile then highlighted that to differentiate from or gain an advantage over a competitor it is likely that a focus on design, for both the firm's strategy and product, would be required. Interestingly from the interviews, there was a clear inclination by the participants to align the firm's brand and strategy with New Zealand attributes and a New Zealand made ethos, with the majority of the participants also indicating that they do not have design experience or extensive in-house capability. This capability was also not indicated by most firms as an area that they believed needed upgrading.

From the literature review, it was expected that aspects of identity and culture would be encountered in this study's findings. Although these aspects were not raised explicitly, the use of New Zealand's image and story were discussed by way of brand and differentiation. This may indicate elements of identity and culture were present; however, they were not as prominent as the literature review would have suggested. The use of New Zealand based attributes, such as nature, green, and ethical, were aligned with the use of New Zealand manufacturers to differentiate their firms from those importing cheaper merino clothing, as well as overseas manufactured premium brands. While the New Zealand made aspect was recognised as an on-going and increasing challenge, it was in most cases identified as a valuable resource. For the most part this differentiation aligned well with the customer needs of the tourism market, on which the majority of the firms focused. However, although these properties work well for tourists, this market is not geographically static. As such, the majority of the participants seemed unaware that although focusing on the tourism market, they were still in effect in competition with every shop selling merino products in every town that tourists visit. Obviously, this aspect is closely related to the limited level of competitive awareness discussed above.

The relatively heavy use of the New Zealand image and story in the industry, together with the absence of strong design experience, has led to little differentiation between the firms. It is clear from the responses that the participants perceive their design processes as primarily non-professional. This would then question the importance placed on design capabilities, and conversely, would indicate that there is a likely opportunity to compete more actively through heightened design capabilities.

7.1.3 “I don't really have a goal...”

In the findings, it was indicated that a number of the participating firms follow ad-hoc approaches to their strategies and decision-making and it would appear that this is a common characteristic of the New Zealand merino clothing industry. In general, as discussed above the participating firms appear to have a limited view of the competitive environment in which they exist. When this limited perspective is coupled with goals of a ‘day-to-day’ nature, a shorter term and less formalised approach to strategy results. This understandable perspective influences the majority of these firms’ strategic choices.

The following factors associated with the industry and the participants suggest how this ‘day-to-day’ perspective can have a flow-on and reinforcing effect on the participants’ perceptions.

- Ease of entry;
- Limited awareness of environmental factors and competition;
- Limited push for growth;
- Interest in international growth; and
- CEO as advantage and disadvantage.

Low barriers to entering the industry were identified by both the industry profile and two of the larger firms in the interviews. The absence of substantial barriers to entry may have decreased the level of preparation needed to be able to enter the industry. That the majority of the firms are funded by personal capital and that there is no apparent requirement for experience makes the entry decision relatively easy and low risk. In this way, the decision does not require the firm to take a longer-term view, but rather the participants appear to follow a ‘make it up as we go along’ strategy. This notion was well supported by there being only two instances where formal business practices were acknowledged as having been implemented.

This limited level of awareness is matched by a discernable lack of aspiration to grow substantially or quickly. Even in those cases where firms indicated the desire to grow, growth was often linked to the need to keep the firm within the financial control of the present owner. For others, this limited aspiration of growth is likely tied to the day-to-day goals and present nature of the business. As long as the business is providing

the needs of the CEO, then the perceived difficulty, risk, and complexity associated with growing the firm is not worth the potential gains associated with increased growth.

Interestingly, attitudes towards domestic growth were not matched by those towards international expansion. Although still only sought after by a minority of the firms, the four firms that did desire international expansion were similar in their relationships with overseas contacts. These contacts could likely be the distinguishing feature between the domestic and international perspectives held by the participants. The presence of a person of trust in the global market may decrease the perceived risks and challenges to a point where the participant can consider going ahead with the expansion. It is, in an opportune way, also likely that the success stories of Icebreaker and Snowy Peak/Untouched World are influential in this distinction.

The influence that the end goal has for the important strategic decisions and direction of each firm underlines the importance of the CEO. As discussed in the literature review, the importance of the CEO and key personnel as a competitive advantage forming resource is a topic of debate (Barney, et al., 2001; Campbell-Hunt, et al., 2001; Castanias & Helfat, 1991; Peteraf, 1993; Rouse & Daellenbach, 1999). For a number of the firms that participated in this research, it is possible that one significant constraint the firm is facing is the limited perception and ambition for the firm held by the CEO. This result therefore supports the notion that the CEO plays a key role as either a source of competitive advantage or disadvantage.

7.2 RBV – Change of Perspective

The range of responses from the interviews clearly supports the assumption that heterogeneity of knowledge, prioritisation and awareness exists. Even though the participants are all comparable in size, industry, and age, their views differed greatly. This strongly supports the argument that researchers should neither assume that participants across different firms have an equal level of knowledge or awareness of their resources and those in their wider environment, nor that they all perceive or attribute resources with value in the same way. These differences would logically increase as the comparability of the situations change; that is to say, studies across dissimilar industries would likely encounter even stronger differences in perspective.

The research here utilised an approach that has produced a number of benefits. First, a more comprehensive list of factors has been defined through the use of more open-ended questions than the secondary sources were able to provide. Although the increase in the quantity of data forms a challenge in providing relevant and concise conclusions, it does more accurately reflect the actual state of the industry and the perceptions of some of its less dominant participants.

Second, this approach has helped to balance the significance placed on particular factors by decreasing the researcher's preconceptions in operationalising these factors. Traditional approaches have the researcher predefining the relevant resources; however, it is clear from the responses here that the participants differ over their understanding and perception of resources. This difference exists not only between the participants, but also extends to the researcher. Given that the participants may not have a formal background in business studies, the difference between practitioner and academic is not surprising. As an example of this difference in perspective, 'relationships' are often touted as a major intangible resource (Barney, 1991; Campbell-Hunt, et al., 2001; Hall, 1992), yet as was seen here, the interviewees defined seven different types of relationship. This disparity over one term would likely lead to difficulty in comparable data. If a firm has a competitive advantage 'relationship' formed through a strong relationship with the customer, this would be then difficult to compare with a firm whose competitive advantage 'relationship' was gained from a strong relationship with a supplier. In this way, allowing the participant to define the intangible resources allows for a more precise understanding of those.

Placing the onus on the participants to define the factors of relevance to their perspective of their firm has a further benefit of allowing the participant to attribute the prioritisation of those factors. This further removes potential researcher bias from the methodology. In the literature review, the ability of entrepreneurs to perceive in resources value that is not apparent to other actors in the industry was noted (Alvarez & Busenitz, 2001; Foss & Ishikawa, 2007; Westhead, et al., 2001). By allowing the participants to highlight the perceived value of their resources, this methodology allows for the difference of value perception that exists between the 'granular'

production view of practitioners and the more 'high-level' strategic perspective of academics.

However, just as important is the use of the industry profile. Had the industry profile not been produced and only interviews been used, these concluding statements would potentially be discussing how no competition exists in the New Zealand merino clothing industry, rather than acknowledging the difference in perceptions. The secondary sources helped to prepare the researcher for the interviews. The industry profile allowed for the selection of a comparable sample while also ensuring that the researcher was well informed about the industry prior to undertaking the interviews. This was invaluable in enabling the researcher to present himself confidently and legitimately in front of the participants. Furthermore, the secondary sources were necessary to be able to accurately define and analyse the current state and breadth of the industry. Finally, the industry profile has been fundamental in contextualising the findings from the interviews. This context has allowed for a comparison between the expected and actual responses and hence aided the identification of responses or perspectives that appear out of line with the analysis presented in the industry analysis.

7.3 Implications

The findings of these two studies have raised a number of questions in regards to the assumptions upon which RBV research is based. Although this thesis set out to investigate the assumption of heterogeneity of participants' knowledge, prioritisation, and awareness, it has ended with questioning an even more fundamental assumption: that of competition, the driving logic behind value, duplication, imitation, and substitution in the RBV.

That competition exists within an industry has always been taken for granted by the RBV. The basis of the RBV is to determine competitive advantage (Barney, 1991), a concept which cannot of course exist without competition. However, it is apparent that how academics perceive competition does not carry over to all the participants in the New Zealand merino clothing industry. Competition requires there to be a 'limited sum goal', for which people or firms are competing. This is often assumed through a desire to grow and therefore 'win' (M. Peng, 2001). However, in this study,

competition and a significant desire to grow are not things that the interviewees perceived as something they are doing or intending to achieve.

Therefore, it is likely that had this research followed traditional methodologies by enquiring about a number of preconceived resources, it is possible that the participant would have answered in ways consistent with the underlying theory and research come away with valid looking data. The findings in this study highlight the possibility that the firm being studied may not see itself in competition, and hence this should be accounted for in the methodology and approach undertaken by the researcher.

Furthermore, these two studies have highlighted a number of benefits that may be gained by increasing the participants' input into the prioritisation and operationalising of the resources. As different perceptions of value exist between participants, as well as between the participant and the researcher, the increased input from the participants should allow for results that more accurately represent reality. New or refined approaches will likely be needed for the VRIO analysis to account for these differences in value attribution.

7.4 Future Research

This thesis laid out a research methodology that was designed to facilitate research on a comparable set of firms, without focusing purely on the high performers. Additionally, this design further aimed to allow the participants to present the factors that they perceived as being the most relevant. As the preceding discussion indicates, this methodology has raised a number of fundamental questions in regards to the assumptions upon which the RBV is based. Further research would be required to determine whether these perspectives are present in other industries or even within different strategic groups in the higher echelon of the merino wool industry. As this methodology purposefully did not focus on the high performing firms, it may be that these aspects of non-competition and day-to-day goals are limited to SMEs and owner-operated firms.

Furthermore, this research has suggested that heterogeneity exists across participants in regards to their knowledge, awareness, and prioritisation of factors. Further research which measures these differences, would be needed to develop the extent of

this concept. However, given that it is likely that this diversity is reflected in multiple industries, there are possibly wider implications for studies that undertake cross-industry research. For this reason, further development of the applied research methodology may help in ensuring that these differences in perception and value attribution can be taken into account. It would also be beneficial to try to determine how this methodology may be coupled with traditional survey instruments.

Additionally the focus on New Zealand based small businesses highlighted a number of aspects, which add to the debate around the status of personnel as possible competitive advantage forming resources. In each small firm that was interviewed, the CEO undertook multiple roles within the company, and as such was a critical resource for the firm. Such a position of influence is more concentrated in this setting as the CEO is not able to step back from the business to be able to take a high-level view; however, every decision made by the CEO impacts on the strategic direction of the firm. This offers an interesting field for study in which the CEO may sit on both sides of the debate.

7.5 Limitations

This research was limited by the number of comparable New Zealand based firms available in the New Zealand merino clothing industry. Additionally, this research was further constrained by restricting the sample to a specific growth stage (2000-2010) to ensure a comparable data set. From the secondary sources, it was apparent, for example, that a number of retail chains and international firms also entered during the growth stage. Although they will likely have had different perspectives, they would have had dissimilar strategies and resource bases in comparison to the New Zealand based firms. Therefore, care had to be taken not to expand the sample too far to ensure the presence of comparable aspects.

Closely related to the limited number of comparable firms are the boundaries of the industry. In this thesis, the industry boundary has been defined by the national lines of New Zealand, a decision made on both pragmatic as well as logical grounds. As the tourism market was clearly defined as a key market in the industry profile, the mobility of this market meant that the industry could be defined around it, which of course is the whole of New Zealand. However, it may be possible that participants

view themselves as being within much more limited and confined industries. That is, instead of being in the New Zealand merino clothing industry, they may be more localised in their perception. For example (using the researcher's hometown), they may see themselves as being in the Whanganui merino clothing industry. Alternatively, they may not even define their industry by the material they use and only perceive themselves as being in a broader knitwear segment, for example. Although this is possible, the logic would still stand that even though they may perceive themselves as such, the mobility of the major market would place each firm in competition with each other.

Further to the inconsistency of recall (Öztas Ayhan & Isiksal, 2005; Wolfram Cox & Hassard, 2007) as described in Chapter 5, it would appear that people will generally attempt to answer each question asked. This limitation is relevant to two questions in particular. The first question queried the awareness the participant has of their competitors, to which the majority answered that they had no competitors or that they were not competing. This question was then followed by asking the participants to name their competitors. To this, the participant then provided a number of competitors. This difference may be due to a change in perspective inherent in these two questions. Where, the first question asks specifically about the participant's awareness, the second question presents it in relation to firms external to them. The generally low level of competition indicated in the responses to both questions, however would indicate that the influence of this is limited.

7.6 Concluding Statement

If at times this study may seem to be overly critical of the participants of this study, it is hoped that this thesis may highlight a number of development areas for them and others like them. Clearly, certain aspects of the above discussion will likely apply more to some firms than it will to others. However, the areas outlined above offer a number of opportunities for the majority of the participants.

From this researcher's perspective, these New Zealand based firms have a huge amount of potential. Although it is not the ambition for a number of the participating firms to compete directly with the likes of Icebreaker and Snowy Peak/Untouched World, for a number of the participating firms this would be conceivable. In

particular, there are some firms that are producing products that are especially well made and designed and which, from the researcher's perspective, have all the characteristics and potential to be the next big New Zealand merino clothing firm. To hark back to the title of this thesis, New Zealand currently has only a limited number of 'black sheep', though there are definitely a number of firms, which could move themselves out of the flock.

That said the New Zealand merino clothing industry has an interesting future ahead of it as it moves further into its growth stage. Recent changes to the supply industry, in which the NZM has become 100% grower owned (Wood, 2011) will likely have an effect on the value chain one way or another. The number of international firms entering the industry will also likely continue to increase as merino becomes ever more a commodity product. With the ever-changing challenges and opportunities appearing in the industry, unique and innovative approaches will be needed for these, and future, firms to successfully compete.

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Appendices

Appendix A: Information Sheet

VICTORIA UNIVERSITY OF WELLINGTON
Te Whare Wānanga o te Ūpoko o te Ika a Māui



VICTORIA
MANAGEMENT SCHOOL
Te Kura Whakahaere

Information Sheet

Information sheet for: Developing the RBV through the New Zealand Merino Clothing Industry

I am a Masters student at Victoria University of Wellington, doing a research project on the merino clothing industry in New Zealand. This research is being conducted as part of the requirements for the completion of my degree and is the basis of my Masters' thesis. Up until now, research on this industry has been limited primarily to one or two selected companies. The aim of my research however, is to understand and include the range of companies that have entered the merino clothing industry since 2000. My focus is on the strategies chosen and the resources available and utilized by companies, such as yours, to best compete in such an exciting and growing industry.

I would like to ask for your support in this research by participating in an interview. The interview will take between 40 to 60 minutes and will examine your personal perspectives on your company's evolution since entering the industry. The interview is entirely voluntary, and you may withdraw at any stage up until the final analysis is completed on the 30th November. You also have the right to decline to answer any question. The interview will be based around the broad themes of your company's:

- Aspirations on entering the industry
- Awareness of competitors and industry factors
- Challenges faced
- Revisions that have been made to your initial strategy
- Resources available and deployed
- Differentiators

My aim is to travel to your location to carry out the interview face to face, and I will fit the date and time of the interview to best suit you. With your consent, I would like to record the interviews so that they can be transcribed afterwards. The recordings and transcriptions will be kept strictly confidential and will be stored securely. These documents will be destroyed on completion of the research, with only non-attributable and aggregated data being retained and presented in the final thesis. This research has sought and been granted Human Ethics approval by the Human Ethics Committee of Victoria University of Wellington.

The interviews will seek to identify and better understand the range of different approaches present within the industry, giving more detail to how industries, such as the merino clothing industry, actually work. This information is of great interest and value, by illustrating what encourages people to enter into industries and how companies intend to compete once established in the industry, as well as helping to explain, not only why, but also how industries grow. In appreciation for your support, I will happily supply a summary of the final results to you.

Thank you for your time and support to help to make this study possible. If you have any queries please do not hesitate to contact me, or my supervisor Urs Daellenbach, using the contact details below.

Researcher:	Andrew Jackson Victoria Management School Victoria University of Wellington	Supervisor:	Associate Prof. Urs Daellenbach Victoria Management School Victoria University of Wellington
Phone:	027 xxx xxxx	Phone:	04 463 5732
Email:	andrew.jackson@vuw.ac.nz	Email:	urs.daellenbach@vuw.ac.nz

Appendix B: Research Consent

VICTORIA UNIVERSITY OF WELLINGTON
Te Whare Wānanga o te Ūpoko o te Ika a Māui



VICTORIA
MANAGEMENT SCHOOL
Te Kura Whakahaere

Research Consent

Developing the RBV through the New Zealand Merino Clothing Industry

This consent form ensures that you are sufficiently informed about the purpose of the research, outlining your rights as a participant in the study entitled *'The Merino Clothing Industry: A Resource Based View of Competitors'*, conducted by Andrew Jackson.

- I have been provided with adequate information relating to the nature and objectives of this research project and have been given contact details with which to seek further clarification or explanation.
- My participation is entirely voluntary and I agree to be interviewed for the purpose of the study, with the understanding that I have the right to decline to answer any question asked.
- I understand that the interview may, with my permission be recorded, and the sound files will be deleted upon completion of the research.
- I understand that I may withdraw from this study at any time before 3rd November 2010, without providing reasons for my withdrawal. In such case, all of the information that I provided will be destroyed by the researcher.
- I understand that any information or opinions that I provide will be kept confidential and reported only in an aggregated or non-attributable form.
- I understand that Andrew Jackson is conducting this study for completion of his Masters thesis. The final report will be submitted for grading and may possibly appear as journal publications or presented at academic or professional conferences. Any further use will require my consent.

I would like to receive a copy of the final summary of results on its completion.

Email: _____

Postal address: _____

Signed: _____

Name of interviewee: _____

Date: _____

Appendix C: Company Details Sheet

Founded (year)	
Place of Manufacture	
Wool Source (country)	
Material Source (country)	
Number of Employees	
Shops (Company owned)	
Shops (Franchisees)	
Shops (Dist. Retail outlets)	
Brands (Number of labels)	
Product lines (number of styles at anyone point)	

Appendix D: Interview Outline

Research project:

Developing the RBV through the New Zealand Merino Clothing Industry

Descriptive Data

- Which market did you focus on when first forming the business?
 - Has this changed since?
- How would you define your brand?
 - Has this changed over time?
- What level of prior experience did you have when forming the business?
 - Apparel and Textile Industry

Interviewer-generated Themes

- How aware are you of your competitors
- Who were your key competitors when starting out?
 - How did this change over time?
- For example how did you perceive Icebreaker or Snowy Peak/Untouched World
- What were your Aspirations/goals when forming the business?
 - Personally and specifically for the business
- When starting out what resources did you have available which made entry possible?
 - Finance?
 - Human resources?

Interviewee-generated Themes

- What other industry factors did you take into account when entering the industry?
 - What were the key factors you were aware of?
 - How have these changed over time?
- Which resources have been important since entering the industry?
 - Relationships?
 - Design?
- What challenges have you faced since entering the industry?
 - What resources have been vital for overcoming these?
- What revisions have you then had to make to your initial strategy?
- Further Comments