**TEACHING NOTES**

**Hide and Skin: An Alaska Tannery Conundrum**

**Case Overview**

The case deals with the expansion plans of Shishmaref Traditional Industries (STI), a tannery and crafts business operating in Shishmaref, Alaska. STI custom tans furs and hides and retails tanned furs and hides as well as finished fur and hide products. STI is facing an uncertain market, an unreliable supply chain, and dated machinery that inhibits its ability to excel in its business. STI has made a decision to seek funding for new machinery and facilities expansion.

**Objectives**

The objectives of the case are for students to:

1. Formulate a customer segmentation study for customers of the tannery industry.

2. Develop an industry attractiveness analysis for a tannery and crafts business and use the results of analysis to help develop a positioning strategy.

3. Identify the workings of a small business, and recognize its intricacies and vagaries.

**Courses and Levels**

The case may be used for an upper-level undergraduate management/marketing strategy course or an MBA level marketing course.

**Discussion Questions and Answers**

1. Perform a segmentation of STI’s present and potential customers in the local market.

Market segmentation is defined as “the process by which a market is divided into distinct subsets of customers with similar characteristics that lead them to respond in similar ways to a particular product offering and marketing program” (Mullins and Walker 2009, p. 180). Potential buyers (or even non-buyers) of the firm’s products can be segmented using various segmentation schemes to create groups that are homogenous within and that differ from other segments in terms of their preferences and market behavior. Based on descriptions provided on buyers in the case, segmentation can be performed on the following criteria (these are suggested segmentation schemes, and are not exhaustive):

a) Users/non-users of STI services

b) Users/non-users of Alaska tanneries

c) Nature of business: taxidermy/crafts/furriers/gift shops

d) Criteria used: price/price-value/speed/quality

Using these and other criteria to segment the market will provide STI with a greater understanding of the needs and wants of the different segments. With this insight, STI can proceed to develop an appropriate marketing mix for each segment, stressing the attributes that are of greater importance.

2. Evaluate the industry attractiveness for STI’s tannery business.

STI is planning a major expansion which will cost nearly $ 1.2 million. Before undertaking this expansion, an evaluation of the attractiveness of the industry would be in order, to determine whether the investment would be wise. One of the longstanding and widely accepted frameworks of assessing the long-term attractiveness of an industry is Michael Porter’s Five Competitive Forces Model (Porter, 1980). STI’s industry attractiveness can be evaluated using Porter’s model as follows:

a) *Rivalry among present competitors*

High investment intensity: According to Mullins and Walker (2009), high investment intensity requires firms to operate at or near capacity, putting strong pressure on prices if demand slows down. The demand for tanneries comes from the need for pelts to be tanned, which is a function of the supply of pelts and also is derived from the demand for tanned furs and the products made from them.

Fragmentation: there is no dominant firm in the industry, or there are many small firms. In STI’s case, there appears to be fragmentation in the market, since there is no dominant form in the industry.

Product differentiation: The rivalry among present competitors is considered high if there is little product differentiation. However, in the case of tanning services, interviews with tanning customers reveal that there can be product – and also service – differentiation. Being able to provide high levels of quality and service would allow STI to differentiate itself and thereby insulate itself from rivalry.

Switching Costs: If switching costs are low (it is easy for customers to switch suppliers) then the rivalry is considered high. In the case of STI, the buyers of tannery services have several options available, and there is little cost or consequence to switching suppliers.

b) *Threat of new entrants*

If entry into the industry is easy, and there is threat of new entrants, the industry is considered unattractive. The threat of new entrants is gauged through several indicators:

Economies of scale and learning effects: When there are significant economies of scale and learning effects, the threat of new entrants is low, since new entrants would have to reach critical volumes and levels of learning before being able to compete with entrenched firms. Experience and learning effects may play a role, since the ability to run quality and cost-effective operations does appear to be limited, as shown in the customer survey.

High initial capital requirements: High initial capital requirements are an entry barrier. In the case of STI, while investment is required for entering the tanning business, it is not gigantic in nature, and therefore may not be an entry barrier.

Strong product differentiation among current industry participants: If current participants have achieved strong product differentiation i.e., their product is known for its superiority and distinctiveness and customers are reluctant to accept substitutes, new entrants may be deterred. In the case of STI, product quality appears to be widely varying among current industry participants, with substitutions between suppliers taking place.

Ability to gain distribution: If gaining access to the market is difficult because of contracted or proprietary distribution channels, this acts as a barrier to entry. In STI’s case, this factor does not apply since it is a service provider and deals directly with the buyer of its services.

c) *Bargaining Power of Suppliers*

An industry is considered unattractive if suppliers to the industry have strong bargaining power. The bargaining power of suppliers is gauged through multiple indicators as follows:

Cost of switching suppliers: The factors of production include the raw pelts, chemicals and supplies, utilities, transportation and labor. While overall in the industry there may be multiple suppliers of each of these factors, the cost of switching suppliers may be low. However, in the case of STI, due to its remote location and consequent distance from factor markets, its suppliers could potentially have bargaining power that may be used to the detriment of STI, thereby lowering its margins. For example, the possibilities of switching suppliers like utility and transportation providers and skilled labor would be low for STI. These suppliers could then negotiate better terms for themselves, potentially lowering STI’s margins.

Prices of substitutes: If a firm faces bargaining on the part of its suppliers, it can seek substitutes. If the prices of these substitute production factors are high, however, they would not be a viable alternative to factors being currently used. In the case of STI, there do not appear to be any viable substitutes for its factors of production: thus, the potentially adverse impact of the bargaining power of suppliers cannot be mitigated.

Ability of suppliers to integrate forward: If suppliers to the firm can realistically integrate forward, then the firm faces the possibility of being driven out of business by these suppliers, should they choose to integrate forward. In STI’s case, this is not a credible threat – it is unlikely that any of STI’s suppliers would integrate forward into the tannery business. On this count, the bargaining power of suppliers is low.

The dominance of the supplier’s product in the firm’s value added: If a supplier’s product is an indispensable part of the firm’s value chain or constitutes a large part thereof, the supplier can use this fact as leverage to negotiate better terms for itself. In STI’s case, dominant inputs appear to be the raw pelts and skilled tanning labor. Without these inputs, STI would not be able to function. Thus, suppliers of pelts and the available labor pool appear to possess bargaining power. Until such time as STI builds independence from the local suppliers of pelts, it would be at a power disadvantage.

d) *Bargaining Power of Buyers*

Buyers of the industry’s products, seeking their own interests, can put pressure on the industry’s profitability, thus reducing its attractiveness. Several indicators point to the bargaining power of the industry’s buyers:

Degree of buyer concentration: If buying power rests in one or among a few buyers, this gives them leverage over sellers that they can use to negotiate better terms and drive down margins. In the case of tanning services, it does not appear that buying power is concentrated among a small number of buyers.

Buyer switching costs: If the firm’s buyers have large switching costs i.e., it would be expensive, hard or inconvenient for them to switch suppliers, the firm may have some insulation from the bargaining power of buyers. For buyers of tanning services, there appear to be no hindrances or costs to switching between tanneries, indicating that they would indeed have bargaining power on this count.

Possibilities of backward integration: If buyers of the firm can integrate backward in their supply chain i.e., produce the firm’s products themselves, then the firm faces a higher threat from buyers. It is unlikely that the users of leather and fur products would get into the tanning business; thus, there appears to be little threat from buyers’ backward integration.

Importance of the firm’s product to the buyer: If the firm’s product is critical to the buyer or forms a substantial part of their own value chain, the buyer has lower bargaining power. Since tanned leather and furs are a critical input for STI’s buyers, they would apparently not have great bargaining power. However, in such cases the buyers may be all the more particular about the quality of the product, and the fact that the cost of switching tanneries is low may overcome the apparent dependence of buyers on one particular tannery.

Buyer profitability: If buyers are facing price pressures and reduced margins, they may be motivated to seek better terms from their suppliers. There is no apparent indication that buyers of tannery services are facing price pressure for their finished goods.

e) *Threat of substitute products*

Substitutes for a firm’s products are those products that are not direct competitors, but that satisfy the same consumer need. Thus consumers may use substitutes that arise from emerging technologies or that have roots in unrelated fields, but that satisfy the need for the firm’s products. The threat of substitutes remains significant for tanneries, as substitutes for leather and furs become popular. The growth of movements such as anti-fur and anti-cruelty, and the development of cheaper and more durable synthetic fibers pose a credible threat of substitutes that may make the industry unattractive in the long term.

3. Considering analysis of Porter’s Five Forces and other resources recommend some positioning strategies that could differentiate the tannery from its competitors.

According to Ted Levitt “Differentiation is one of the most important strategic and tactical activities in which companies must engage. It is not discretionary. And everything can be differentiated, even so-called “commodities” such as cement, copper, wheat, money, air cargo, marine insurance. . . .” (Trout, 2000)

Michael Porter agrees:

There's a fundamental distinction between strategy and operational effectiveness. Strategy is about making choices, trade-offs; it's about deliberately choosing to be different. Operational effectiveness is about things that you really shouldn't have to make choices on; it's about what's good for everybody and about what every business should be doing. . . . There have been those who argue that in this new millennium, with all of this change and new information, such a form of destructive competition is simply the way competition has to be. I believe very strongly that that is not the case. There are many opportunities for strategic differences in nearly every industry; the more dynamism there is in an economy, in fact, the greater the opportunity. And a much more positive kind of competition could emerge if co-managers thought about strategy in the right way. (Hammonds, 2001)

Students could focus on the results from Porter’s Five Forces Analysis of product differentiation. Since competition is high and there’s little product differentiation, the co-managers could find unique product or service attributes to differentiate the Tannery from competitors. Being able to provide high levels of quality and service would allow STI to differentiate itself and thereby protect itself from rivalry. Perhaps the co-managers could find a way to overcome the distribution difficulties and improve the supply chain. The new the production facility would facilitate producing more products more efficiently and decrease the time lag for delivery. Additionally, the new facility, improved management, and hiring more artisans and employees could result in more consistent product quality. Examination of these attribute could reveal strong opportunities for product differentiation among current industry participants. STI’s products could become known for its superiority and distinctiveness. Ultimately customers would be reluctant to accept substitutes and new entrants may be deterred from entering the market.

Jack Trout (co-authored the classic, groundbreaking book with Al Reis, Positioning: The Battle for Your Mind in 1981) identifies nine ways to differentiate (develop a unique selling propostition) in his book, Differentiate or Die:

1. Enter the marketplace first.

2. Own a unique attribute. This could be a characteristic, a unique feature of a person or thing, or some peculiarity.

3. Have distinctive leadership such as in sales, technology or performance.

4. Focus on the business’s history i.e. its heritage.

5. Focus on a market specialty and concentrate on a specific activity or product—become the expert

6. Become the preferred source.

7. Find something unique about how the product is made.

8. Produce the latest, most up-to-date product.

9. Use “hotness” – tout your sales growth—if it’s beyond what your competitors are experiencing.

(Students could make a case for using one or more of the positioning strategies suggested by Trout or find other resources to uncover additional ideas.)

Among the strategies that Trout recommended, there are strategies that would not work. For example, STI was not the first tannery in the marketplace.

The Tannery could become the expert for tanning Alaska hides and skins. Kelley and Roger could create a strategy for becoming known as specialists in the tannery industry. Their knowledge of handling skins from Arctic regions differentiates them from some of their competitors and may help them become a global resource for solving problems. They also have to stay specialized and “stick to the knitting”—a phrase often used in Positioning—to remind them to stay focused on what they do best.

Some students may think that building brand preference would be a good way to differentiate the tannery and its products. STI use the least harmful, more environmentally friendly chemicals for tanning. Many consumers believe that using “green” (or in the tannery’s case, greener) chemicals to produce products is the right thing to do. The target market for skins, hides, and retail products would appeal to a select target market and the tannery would become the preferred supplier.

4. What particular circumstances/conditions set the Shishmaref tannery apart from other types of businesses? Suggest some options that would help STI and the co-managers to reach their goals.

A. STI is a business that is a small business, and atypical from other business in many ways. Among the aspects that are of interest about STI, the following stand out:

1. Ownership: STI is owned by a village corporation. STI is part of Shishmaref Native Corporation, which in turn is part of the Bering Straits Native Corporation. Pursuant to the Alaska Native Claims Settlement Act f 1971, thirteen regional corporations were established to settle the claims of Alaska Natives residing in the respective regions, and village corporations were created under the regional corporations. The ownership in these corporations rests in the Natives of the respective villages and regions, who own stock in the corporations. Thus, the shareholders of STI are the residents of the village.

2. Location: As shown in the map, Shishmaref is located in one of the western-most locations of Alaska, and is not connected by road to the major population centers of Alaska, much less to the contiguous states. The remoteness of the location adds to the logistics expenses of raw materials and supplies as well as freight on the finished goods. The weather in Shishmaref is extreme, adding to the energy expenses of the operation.

3. Labor: Due to the remote location of Shishmaref and the fact that the corporation is for all purposes a cooperative enterprise, the labor availability is limited to members of the village. While this goes towards generating employment for the village residents, it may hinder STI from finding the most efficient human resources solution.

4. Lack of marketing and business experience: The key employees in the case, Roger Nayokpuk and Kellie Olanna, are part of the village and are jointly the co-managers of the tannery. There appears to be dissatisfaction with the quality and pricing of STI’s services among its customers, with competitors in the contiguous 48 states apparently offering attractive terms and apparently better products. While the aging tannery may be partly to blame for this shortfall, a possible reason for this state of affairs could be that Nayokpuk and Olanna are facing a disconnect with the market. There appears to be a lack of market orientation, which is the ability of the organization to be outward looking, focused on its customers and competitors, and to be able to gather information on the changing market conditions and act upon that information in order to provide superior value offerings to the market. A recurring problem found with co-managers of small, cooperative-type enterprises is the lack of marketing understanding, and the existence of a production orientation among the co-managers, who hail from backgrounds in artisan work and production.

B. In today’s economy many of the disadvantages of operating in a remote area can be overcome. The co-managers could take advantage of social commerce to build their brand as part of an integrated marketing communications strategy. They could get help producing a promotional strategy and social media plan (available online) that would tout their competitive advantage. Additionally, if finding more artisans in Shishmaref becomes a problem, online access to other villages in Alaska could help the co-managers find other artisans willing to produce products. Furthermore, employees for the tannery could be recruited using online resources.

Nayokpuk and Olanna seem willing to learn more about marketing and to improve their business skills. Doing so should help them become less product oriented and more market oriented. Their social media strategy should be tailored to building a strong customer-relationship strategy. Furthermore, the team should learn best practices for supply chain management. Kellie and Roger should consider enrolling in online courses in marketing, retailing, and logistics and also get help from the Small Business Administration.

**Epilogue**

Co-managers Kellie Olanna and Roger Nayokpuk of the Shishmaref STI were successful in their bid to earn funding for the tannery project. The SLI was granted funding from the U.S. Department of Commerce’s Economic Development Administration and supplemented by USDA Rural Development, the First Nations Eagle Fund, and by the Shishmaref IRA Council. The upgrade to the tannery was completed the following year. The tannery was running successfully shortly after the new tannery was built.