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# Market Share Assessments

Dairy Manufacturing  
Leather Footwear, Furniture Manufacturing  
Garment Manufacturing  
Printing Presses

J U L Y 2 0 0 8

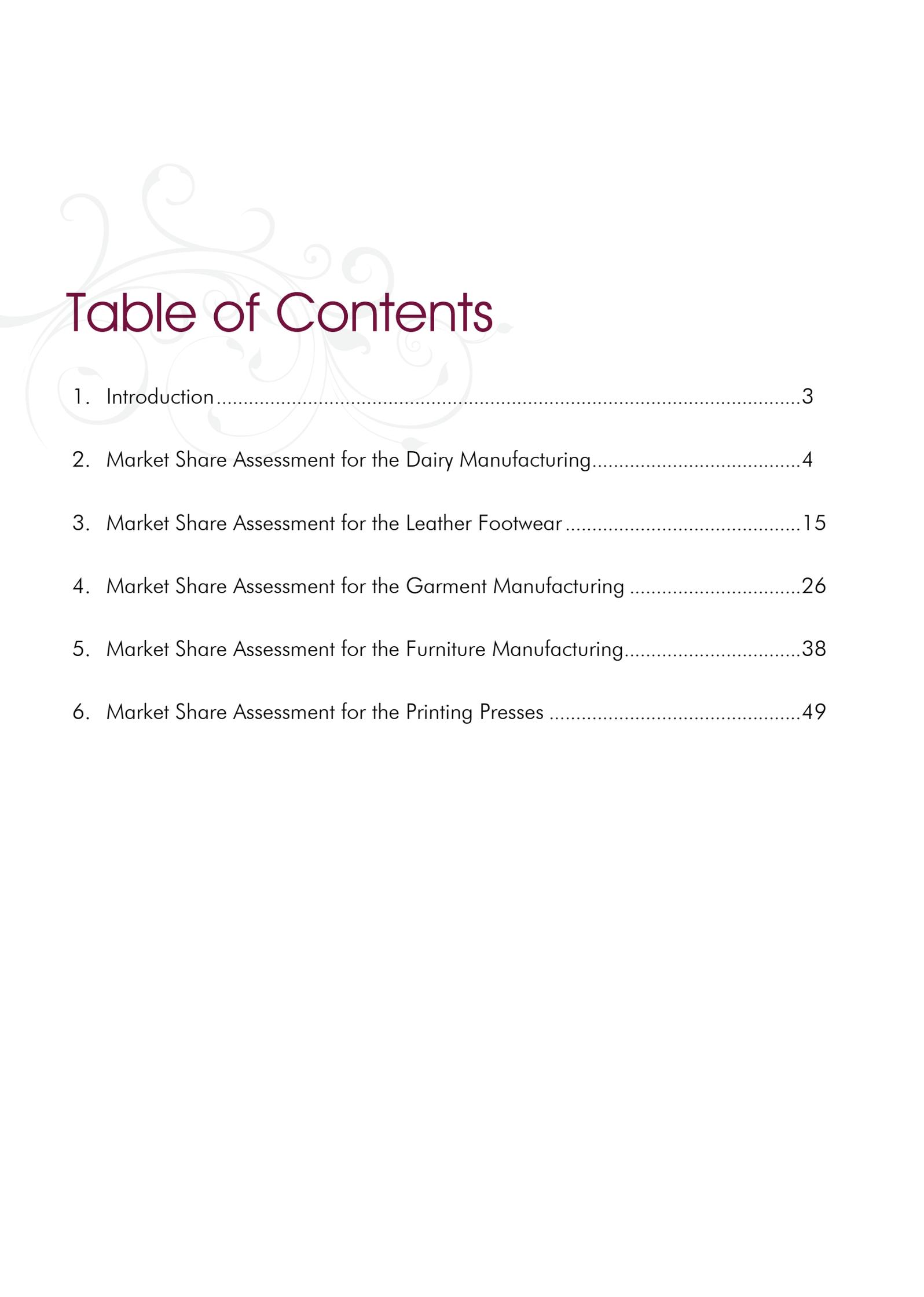
Prepared by:  
Palestine Trade Center – PalTrade

As part of the Marketing Services Development Project (MSD).

These assessments were made possible by the support of the American People through the United States Agency for International Development (USAID).

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# Introduction

The Market Share Assessments were developed as part of the Marketing Services Development Project (MSD), which was conducted in cooperation with the Palestinian Enterprise Development (PED) project, funded by the United States Agency for International Development (USAID) and implemented by Development Alternatives, Inc. (DAI). The assessments were developed to fulfill a need for improved availability and analysis of market information in Palestine, while some official information is available through limited sources is often incomplete. Furthermore, this information is insufficiently included in strategic analysis of enterprise performance at the sub-sector level in the West Bank and Gaza Strip (WBGS).

The assessments were therefore developed as a Paltrade tool to measure trends in market size and market share of domestic enterprises, aiming to identify expansion challenges and opportunities and recommend specific activities for firms and sector stakeholders to improve their market share in the domestic market.

The assessments relied on official data on production and trade published by the Palestinian Central Bureau of Statistics (PCBS) and the Ministry of National Economy (MoNE). This information is supplemented by a representative sample of producers as well as short surveys of retailers and importers in each sub-sector.

Paltrade launched the Market Share Assessments (MSA's) by developing an efficient methodology and conducting two pilot assessments in the dairy and footwear sub-sectors. The methodology presented a strategy for: identifying and defining sub-sectors; integrating sub-sector stakeholders through industry working groups; identifying and obtaining existing data; filling data gaps through survey instruments; analyzing data; developing recommendations in close consultation with sub-sector working groups; integrating recommendations into the future planning of Paltrade activities; and presenting findings to sub-sector stakeholders.

Three additional sub-sectors – furniture, printing, and garment - were analyzed consequently, building on the experience during the pilot phase. MSA's are designed to be updated on an annual or periodic basis in response to changes in priority sectors. Additional sectors will also be assessed in the coming years.

## The information obtained through the MSA's includes:

- Domestic market size and share
- Recent sub-sector trends in sales, enterprises, employment
- Capacity utilization in the sub-sector
- Geographic distinctions in sales throughout WBGS, Israel, and foreign markets
- Competitive analysis of sub-sector capacity
- Strengths, weaknesses, opportunities, and threats in the domestic market
- Strategic recommendations to build domestic market share in the short term with a long term export orientation

**"The Market Share Assessment Studies were developed in cooperation with the PED/DAI Short Term Technical consultant, Mrs. Bryanna Millis"**

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Market Share Assessment:

# Dairy Manufacturing

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## Market Share Assessment: Dairy Manufacturing

### 1. Executive summary

The Market Share Assessment tool was developed by the Palestine Trade Center (PalTrade) in early 2008 with support from the USAID-funded Palestine Enterprise Development (PED) program implemented by DAI. This tool aims to address the lack of information on enterprises at the sub-sector level in the West Bank and Gaza, using a combination of existing data from official sources and sector associations, and primary research conducted through enterprise-level surveys. The recommendations developed here are oriented to assist firms to improve their market share in the domestic market and to support increased exports in the longer term.

The Palestinian dairy sub-sector has two distinct markets. The first includes herders throughout the West Bank producing raw milk for traditional processors with extremely small scale family enterprises. The second is an industrial dairy sub-sector producing cheese, yogurt, labaneh, and other products for the supermarket clientele, which is the market addressed in this assessment.

The industrial component of this sub-sector has recovered to some extent from the damage to sales following the start of the second Intifada.



Palestinian dairy products  
on supermarket shelves

While the number of firms initially fell dramatically, as domestic milk production has increased capacity to supply this industry remaining firms are increasingly able to innovate and meet market standards for quality. Domestic processors fulfilled just over half of the market in 2005.

While there were only 28 firms in this sub-sector in 2006, employment was nearly 1,000, higher than in all years but one since 2005. Capacity utilization for the sub-sector as a whole is only about 45 percent, with sampled firms processing at anywhere from 25 to 70 percent of capacity. The dairy sub-sector continues to suffer from a weaker reputation for quality than the imported product among domestic consumers.

This is often attributed to Palestinian Authority (PA) regulations stipulating a shorter expiry date for domestic products, a regulation that imports are not subject to, but may also be the result of a weaker quality standards certification system than is found in Israel.

Two-thirds of processors have Palestinian Authority quality standards certification, which is monitored by the Palestine Standards Institution (PSI), but the responsible Ministries have mixed capacity to monitor quality of those that do not.

Implementing and enforcing quality standards, supporting businesses to develop comprehensive marketing efforts, addressing competitive challenges at the regulatory level, and upgrading of business processes in general—particularly among smaller processors—will assist Palestinian processors to make even larger gains in domestic market share.

## 2. Methodology

This study makes use of unaltered data from the Palestinian Central Bureau of Statistics (PCBS) and Ministry of National Economy (MoNE), and sector association estimates. While this information is the most complete in terms of time series and sector and sub-sector level data, inaccurate and incomplete reporting suggests that official statistics underestimate the true value of annual sales.

To supplement official information, a representative sample of producers in each sub-sector is used to obtain information on output, regional trends, and perceptions of challenges and opportunities. 9 out of 18 processors in the West Bank responded to questions related to sales and employment.



Palestinian dairy products advertisement

These companies represent approximately 200 percent of 2006 sales at their average production levels—a discrepancy that will be described in greater detail later in this analysis—and 51 percent of 2007 employment data. Finally, short perception surveys of retailers and importers provide information on distribution, marketing, and consumer perspectives.

## 3. Overview of the dairy sub-sector

The dairy sub-sector in the West Bank is diverse, with traditional processing and consumption of goat, sheep, and cow milk worth approximately US\$ 112 million in 2007 according to the Palestinian Federation of Agricultural Industries (PFIA). PalTrade survey results of six out of 18 West Bank Processors found that domestic industrial production of dairy products, including ice cream, is likely between US\$60 and US\$ 70 million, an estimate confirmed by the PFIA. The following analysis is confined to industrially produced dairy in the West Bank in the interest of developing targeted recommendations for industrial processors of dairy products sold at retail outlets.<sup>1</sup>

<sup>1</sup>For a recent report on the dairy sector as a whole see: West Bank Dairy Market Survey and Analysis, prepared by TALEM Associates for the USAID-PAPA project. 2008.

The dairy manufacturing sub-sector analyzed here is defined by the International Standard Industrial Classification (ISIC) code 1520, a category that excludes production of raw milk from goats, sheep, and cows, and includes the following products produced in Palestine<sup>2</sup>:

- Milk: whole fat, low fat, zero fat, sweetened, dried;
- Yogurt: whole fat, low fat, yogurt milk shakes;
- White cheese;
- Yogurt cheese (“labaneh”), butter, ice cream;
- Others, including salted dried cheese.

Farms and processing plants are located around the West Bank and Gaza<sup>3</sup>, with significant presence in Hebron in the south and Nablus and Jenin in the north of the West Bank, as well as Gaza. In recent years, the dairy sector has begun to overcome a primary competitive challenge common throughout the food sector by increasing domestic production of raw materials. Domestic farms now provide approximately 60 percent of the raw milk used by dairy processors throughout the West Bank, significantly lowering the costs of production.<sup>4</sup>

However, the dairy industry faces fierce competition from Israeli dairy processors, led by the Tnuva, Tara, and Strauss brands. These companies are far larger than those found in the West Bank—Tnuva, which produces 70 percent of Israel’s dairy products in addition to meat and other processed foods, was valued at nearly US\$ 1 billion in 2005.<sup>5</sup> Furthermore, they benefit from efficient process and distribution mechanisms and are subject to different regulations than Palestinian processors, with important implications for the competitiveness of domestic firms.

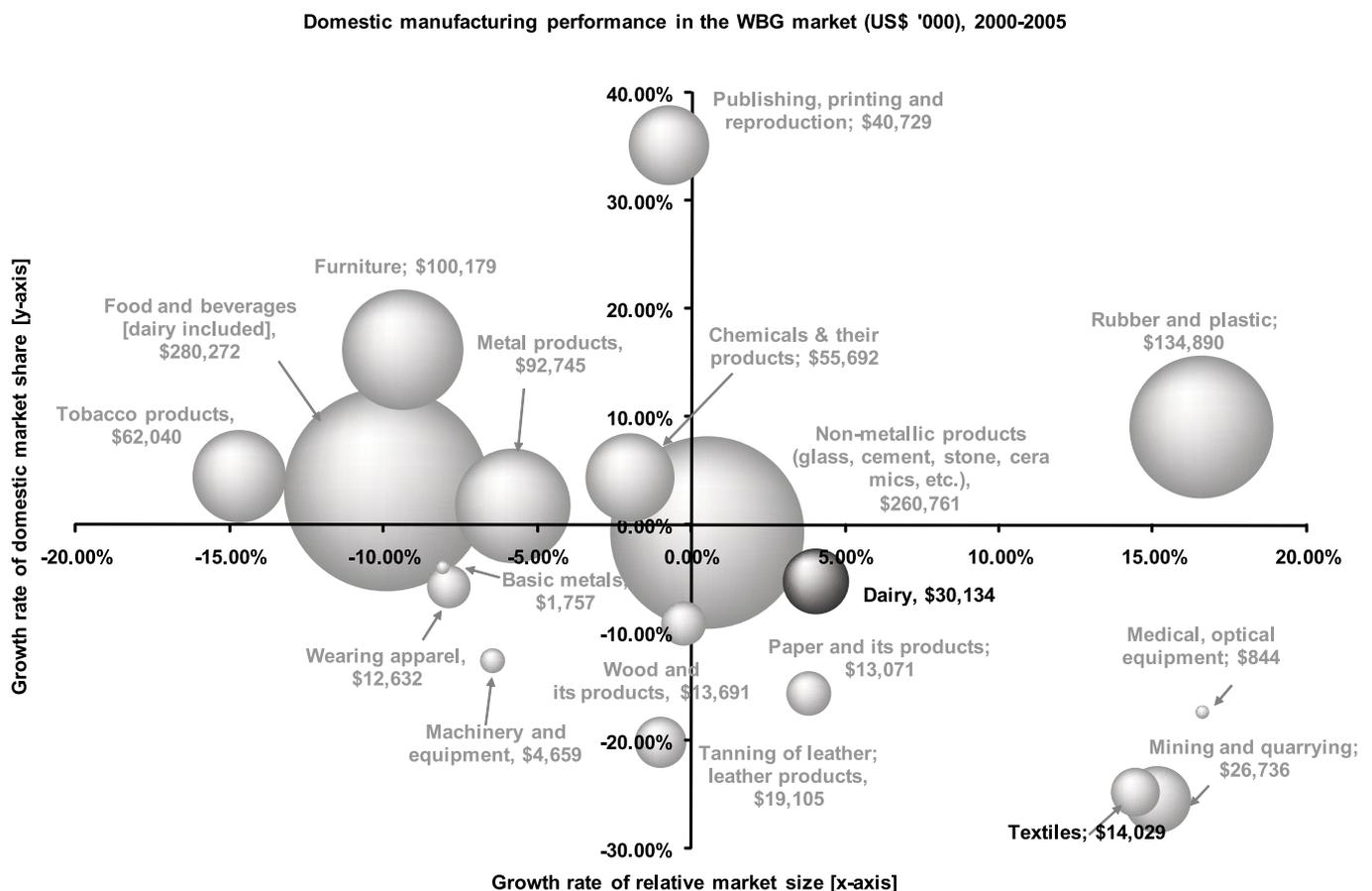
<sup>2</sup> United Nations Statistics Division: <http://unstats.un.org/unsd/cr/registry/regcs.asp?CI=17&Lg=1&Co=1520>.

<sup>3</sup> West Bank Dairy Market Survey and Analysis, prepared by TALEM Associates for the USAID-PAPA project. 2008.

<sup>4</sup> Ibid.

<sup>5</sup> Globes On-line: <http://archive.globes.co.il/NGLISH/index.asp?ID=1000135652>; Transnationale.org: <http://www.transnationale.org/companies/tnuva.php>.

Figure 4-1 Dynamic Market Share of Palestinian Manufacturing



Source: PCBS, 2008; PalTrade/DAI analysis

# 4. Dairy sub-sector market analysis

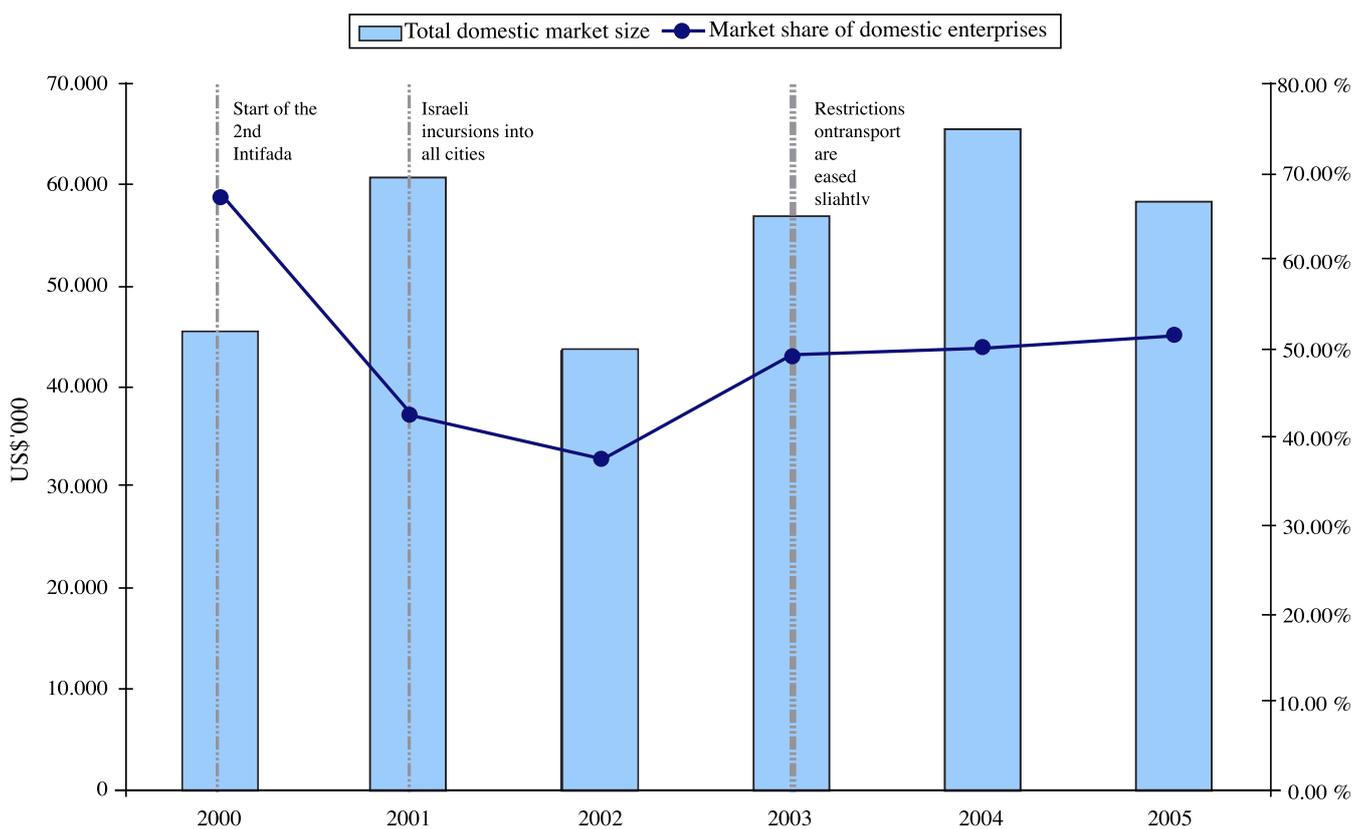
The dairy sector is oriented towards the local market, with nearly 100 percent of its sales in this market in 2006, excepting one company that exports ice cream. Sensitivity to transportation delays, difficulties in maintaining the cold chain, and nascent quality standards suggest that the local market will remain the primary focus for years to come.

The dynamic market share analysis graphs the performance of sectors in the domestic market at the two digit ISIC code level over the period of 2000 to 2005, the last year for which trade data is available from PCBS. This analysis is a DAI adaptation of the Boston Matrix that is used to identify potential in trade markets and review sector trends while holding the broader economic performance constant. In this case, the analysis has been adapted to compare the recent performance of domestic sectors within the WBG market.

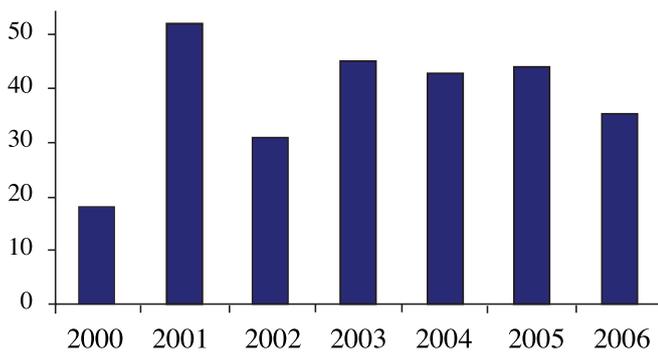
The value of sales is represented by the size of the bubbles while the position of the bubbles reflects the growth rate of the relative market size on the X axis and the growth rate of market share on the Y axis. Bubbles in the top right-hand corner are considered high performers that are gaining market share in a growing Palestinian market. Rubber and plastic is the sector in this quadrant-an increasing share of domestic processors is meeting the growing demand. In the lower right-hand corner the market is growing but domestic industries are losing market share. Textiles, paper, medical equipment, and mining and quarrying are sectors for which there is growing domestic demand that is not currently being met by domestic firms, but for which there is clear potential.

In the top left quadrant the market size for the selected manufacturing sectors is growing negatively relative to the market size as a whole, although domestic firms are gaining market share. The size of the domestic market for the food and beverages sector, which contains the dairy sub-sector, contracted slightly between 2000 and 2005 but the share of domestic industries grew positively by a few percentage points during this time.

Figure 4-2: Trends in Domestic Market Size and Share of Dairy, 2000–2005



**Figure 4-3 Trends in Establishments, 2000–2006**



Source: PCBS, 2008

The bottom left quadrant reflects sectors that are facing the most challenging conditions, with loss in market share and slow or negative growth in relative market size.

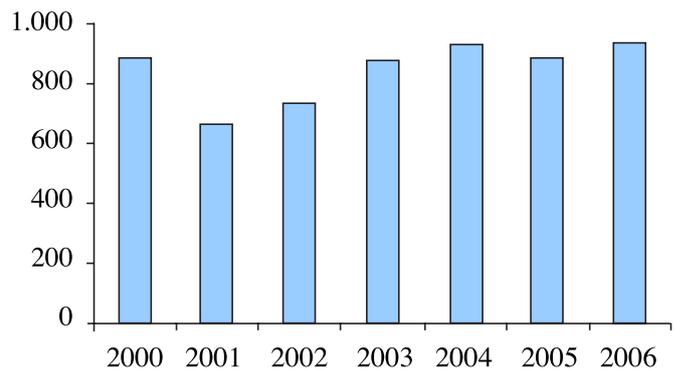
The dairy sub-sector of the food and beverages sector is also represented separately. It is found in the lower right hand quadrant, illustrating that domestic market share has decreased slightly in recent years, but that the domestic market size is growing more quickly than for the food sector as a whole. This analysis is supported by other recent analyses of the dairy industry in Palestine, which suggest that the domestic market will grow even more rapidly in the coming years due to relatively low levels of per capita consumption compared to other countries of the region and a growing population.<sup>6</sup>

### Trends in Domestic Market Size and Share Trends Over the Past Five Years

According to PCBS data, the domestic dairy sub-sector experienced a steep drop in market share following the beginning of the second Intifada in 2000. The market size increased due to increased imports from Israel, but domestic products faced blockages and delays in transportation around WBG.

During the early 2000s domestic market share fell from a high of 70 percent to below 40 percent, reaching its lowest point during the 2002 incursions. By 2003 the sub-sector had recovered somewhat and since that time it has held steady with a domestic market share of just over 50 percent in a US\$60 million market in 2006.

**Figure 4-4 Trends in Employment, 2000–2006**



Source: PCBS, 2008

However, the PalTrade survey found that 7 of the 18 processors in the West Bank alone reported US\$ 43 million in production in 2007. As data on imports in this year were not available from any source it is not possible to accurately estimate the total market size, but these data suggest it is larger than official statistics suggests. However, the trends in sales and share illustrated by the PCBS data remain supported by industry experts.

In line with the dramatic drop in domestic market share in 2001, the number of employees in that year fell to less than 700, from close to 900 the year before. The number of employees in the industry began to recover in 2002 and, with some variation, have been on a slight upward trend since that time. PCBS data finds 35 establishments and more than 900 employees in this sub-sector in 2006.

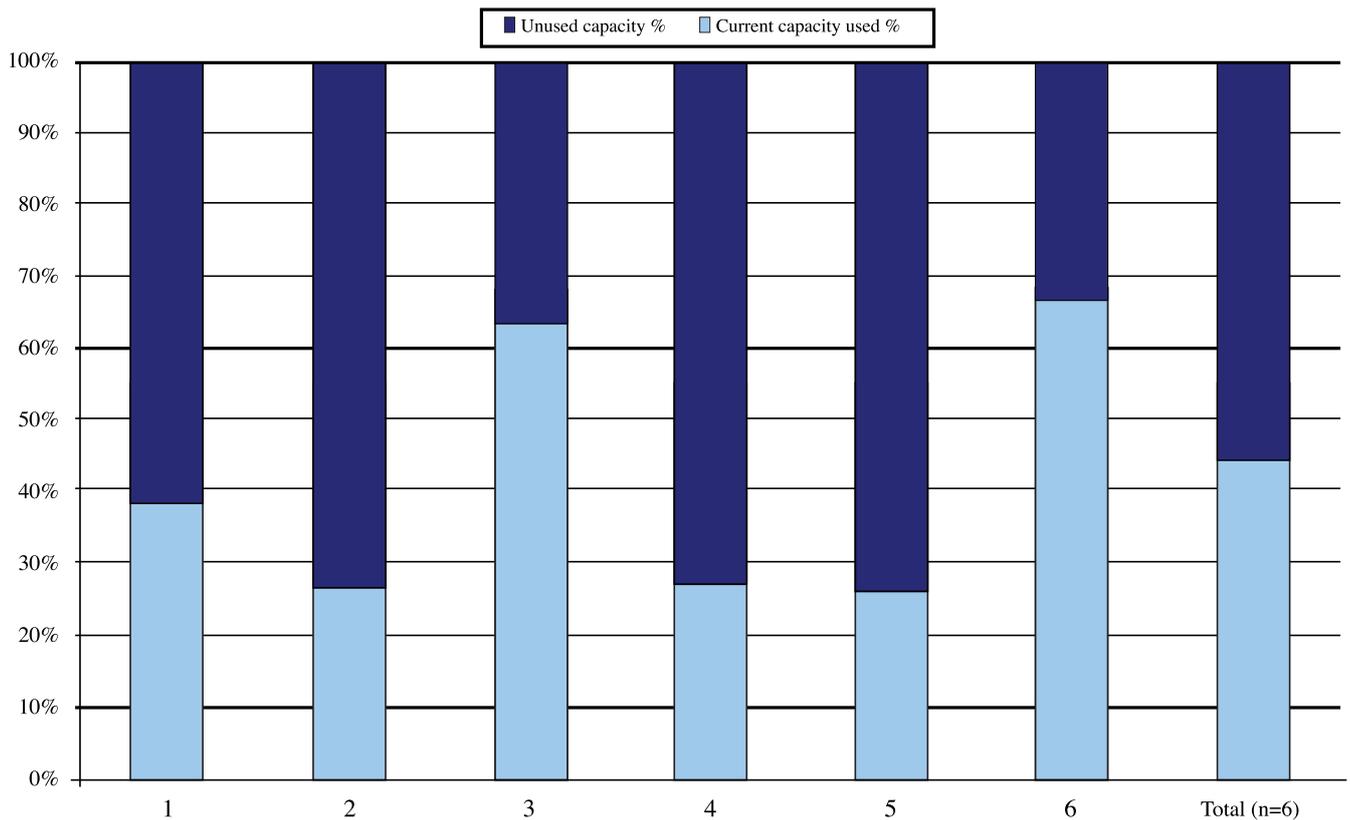
The recovery in employment has been due to increases in the sizes of domestic enterprises, rather than an increase in the number of firms. Less efficient smaller firms have closed, unable to compete under current conditions, while some of the larger firms are expanding both their capacity and their product lines. However, there is still a great range in the sizes of Palestinian dairy companies.

The MSA processor survey found that the number of employees ranges from 9 to 250 full-time workers—an extremely large company by Palestinian standards—with a mean of 64.

The maximum capacity of the mean company is US\$ 2 million in monthly production, although the range in this area is from US\$20,000 to US\$8 million.

<sup>6</sup>Ibid

Figure 4-5: Capacity Utilization of Sampled Domestic Firms



Source: MSA producer survey, PalTrade, 2008

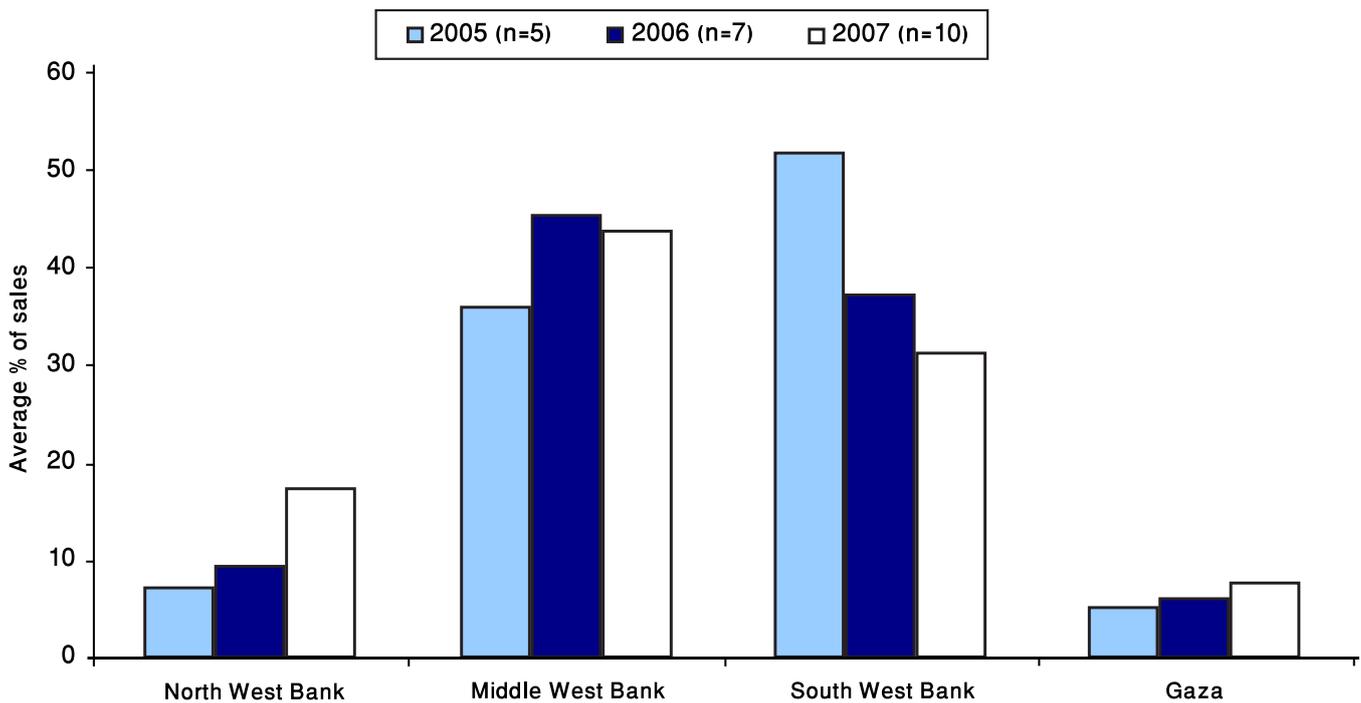
While these figures reflect maximum capacity, current processing levels are much lower. This estimate is based on survey responses to questions about the average maximum amount produced per month in the last year compared to the maximum capacity. Chart 4-4 illustrates that four out of six firms in the sample were producing at less than 40 percent capacity in 2007, while two worked at above 60 percent. The sub-sector average was approximately 45 percent.

### Geographic Distinctions in Production and Sales

Much of the raw material for the dairy sector, milk, is produced in Hebron and Nablus. According to the processor survey, sales of industrially produced products remain weaker in the northern towns where traditional and bulk cheeses and yogurts continue to prevail. Sales are highest to the middle region of the West Bank (Ramallah), with about 45 percent of the market, while the south has about 30 percent and the north less than 20. Sales to Gaza accounted for less than 10 percent of total sales in each year. Most dairy processors sell through distributors and target only the West Bank market.



Figure 4-6: Geographic distribution of sales



Source: PalTrade MSA Survey, 2008

## 5. Competitive sub-sector analysis

### Differentiation of Products: Price/Quality

The Palestinian Standards Institution (PSI) has developed standards for both technical certification and quality management and to date there are 14 technical regulations governing the production and sale of dairy in WBG. These standards are voluntary and in 2007 one third of firms had not obtained any sort of certification. However, according to the PFIA, industrial dairy processors follow existing standards even if they do not obtain official documentation. The Ministry of Health and the Ministry of National Economy are in charge of monitoring and surveillance for firms without official certification, while the PSI inspects certified firms.

In the sample surveyed, only one out of nine firms did not have their own quality management department. Firms average three employees in quality management departments, although the numbers range from one to nine. More than 60

percent of dairy companies in the West Bank are more than 15 years old, but even many older firms have continued to upgrade their machinery—more than 60 percent of firms are using basic machines that were purchased after 2000.

Price is relatively unimportant in the dairy sub-sector as strong competition from domestic and Israeli firms ensures a relatively even price for goods. Two thirds of processors prioritize quality, followed by taste and then price.

### Differentiation of Products: Marketing Strategies

Marketing plans are not the norm in the West Bank dairy sub-sector—only 55 percent of firms have developed such a plan, with most developing a quarterly plan. More than 75 percent of firms do spend money on commercials or advertisements, however, with an annual average of US\$ 64,000 and several firms spending close to US\$ 200,000. More than 50 percent of the dairy processors surveyed perceive that incentives for retailers are the most effective mechanism for promotion—and all of them engage in this behavior—followed by commercial campaigns and advertisements.

The larger domestic dairy firms are sophisticated about their target market and are actively engaged in activities to maintain or expand their sales. Recent initiatives include redesigning packaging and developing new product lines such as flavored yogurts and yogurt drinks.

## Retailer Perceptions

A short non-representative survey of dairy retailers in the West Bank was conducted to obtain additional perception data on the competitive constraints and opportunities for local processors in this industry. Dairy retailers are focused on issues of quality, taste, brand name and price and they believe that promotional campaigns make a difference in consumers purchasing behavior. Retailers believe that consumers prefer local products due to quality and trust, in addition to taste and packaging, and they typically promote both local and imported goods in their stores.

Nearly two-thirds of retailers believe that promotional campaigns in the store make a difference in consumer choice. About half of the respondents to the recent retailer survey also felt that different kinds of advertising are important or very important, with radio, TV and newspapers viewed as effective by the highest percentage of retailers.

## Strengths, Weaknesses, Opportunities, and Threats (SWOT)

Information on the strengths, weaknesses, opportunities, and threats in the Dairy sub-sector was gathered through the PalTrade surveys and extensive consultation with the PFIA leadership and members.

The dairy industry in the West Bank is highly competitive in the domestic market and as the policy framework begins to support additional standards certification processors can further capitalize upon their strong reputation for quality and taste. The firms in the dairy industry are also relatively large compared to the average Palestinian enterprise and are better able to obtain economies of scale in production and distribution.

Difficulties in transportation within the territories are critical for this sub-sector due to the short time frame required for products to get from processor to retailer and the need for a consistent cold chain. Restricted access to Gaza has effectively eliminated this region as a market for firms in the West Bank. Furthermore, Israeli imports have strong reputations for quality and taste in the Palestinian market and specialty and top quality goods obtain a premium at the retail level. Israeli products are also subject to different regulations and typically have a longer expiration period

## 6. Recommendations and interventions

To raise competitiveness in the domestic market, the Palestinian dairy sub-sector will need to focus on maintaining and improving quality standards and strengthening the cold chain, including storage and transportation. Furthermore, the production of a wider variety of products will enable processors to expand their market share. Opportunities to improve domestic market share exist from inputs through final sales, including improvements in information and the reform of some key policy issues.

### Quality Standards

Improved quality standards are essential to firm's ability to compete in the domestic market and, over the longer term, to enable Palestinian firms to access export markets.

- Improve capacity of the Ministry of Health and Ministry of National Economy to complete surveillance and monitoring;
- Work towards ISO 9001 for Quality Management Systems and ISO 22000 for Food Safety Management.
- Conduct and impact assessment of making quality standards certifications mandatory.
- Support the accreditation of the PSI to certify firms in ISO 9001.
  - Bring international expertise to develop Quality Management Systems and accredit PSI;
  - Provide training for ISO 9001 auditors.
- Support training and capacity building at the firm level.

- Trainings to meet Palestinian Authority quality and technical standards;
- Develop ISO 9001 training for small firms using the International Standardization Organization materials for SMEs;
- Develop a local “all natural” seal to capitalize on low levels of preservatives used in domestic production.

### Processing and Distribution

Outdated machinery and weak cold chain systems are primarily a problem for smaller processors, but improvements throughout the system will assist firms to provide more consistent quality, minimizing waste and ensuring proper handling from farm to consumer.

- A needs assessment of the dairy sub-sector cold chain;
- Support to upgrade storage and processing machinery as needed.

### PSD Training

Firms in the dairy sector vary in their business systems sophistication. Larger firms are at the forefront of marketing product, financial management, product development, and packaging design, but firms lag behind importers in these areas and smaller firms in particular need additional assistance to strengthen their operating procedures:

- Marketing: The perception of Israeli products as higher quality than those produced domestically remains prevalent and domestic producers are not as actively engaged in marketing their goods to gain brand recognition and improve perceptions;
- Buy local campaigns, such as “Our Product” have been successful in the past and should be linked with a marketing campaign focusing on quality.

- Commercial exhibitions highlighting Palestinian-made goods should be located in the different regions of the West Bank to overcome transportation challenges.
- “All natural” advertising stressing the use of all natural preservatives.
- Developing motivational incentives for retailers to promote domestic products on their shelves.
- Financial management: Improved financial management systems will enable firms to make their business processes more efficient and to obtain investment from local or international sources;
- Product development: Israeli imports lead in the introduction of new products to the market. Increasing dairy product varieties is seen as an opportunity for Palestinian processors to improve their market share;
- Packaging design: A number of dairy producers have redesigned their packaging in recent months, modernizing their image but smaller firms in particular need assistance to.

### Information

As this study illustrates, information about the dairy sector remains incomplete and challenging to obtain. Sector associations have good access to firm-level information—and are often able to obtain high quality data on sales—yet this information is not widely distributed or made available to other institutions.

- Conduct a needs assessment of the PCBS to improve capacity to gather and disseminate economic data;
- Develop a data support unit to improve cooperation among sector associations, relevant institutions and the PCBS.

Strengths	Weaknesses
Increasing consumer trust in domestic products Large firms with capacity to grow Domestic capacity to produce raw materials (milk) Increasing efficiency in domestic firms Firm level priority on quality standards Policy and institutional attention to quality standards	Stringent regulations on expiry dates High logistics/ transportation costs Outdated or second hand machinery in use Insufficient cold chain distribution services Preference for traditional products in some regions
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Higher or compulsory quality standards</li> <li>• Improved reputation for Palestinian quality (marketing)</li> <li>• A large and growing market</li> <li>• New product development</li> </ul>	<ul style="list-style-type: none"> <li>• High costs of transportation and delays</li> <li>• High degree of competition from Israel</li> <li>• New product development from Israel</li> <li>• Political instability</li> </ul>

## Advocacy

The Palestinian dairy sector could take advantage of additional market opportunities within the region, if not for current practices that close natural markets.

- Advocate that food aid in Palestine be Palestinian produced rather than imported from Israel and other sources;
- Advocate that Israel open its market to Palestinian dairy products, addressing the ability to certify Palestinian products as Kosher or to reach non-Kosher markets in East Jerusalem;
- Advocate for the removal of quotas on imports of powdered milk from abroad.

## Additional Research Needs

Broad-based recommendations are possible for the sub-sector as a whole, but linking specific activities to increases in domestic market share will require target research at the product level.

- Value chain mapping for specific products within the dairy sub-sector;
- Value chain mapping and research for the traditional dairy sub-sector;
- Development of a product-level consumption survey to identify opportunities in cost/positioning/marketing/etc. and drive company level decisions;
- Market Share Assessment for the product level;
- Identification and estimates of costs of regulatory constraints to dairy products

## Supporting Institutions

Institution	Contact information
Ministry of National Economy	Website: <a href="http://www.mne.gov.ps">www.mne.gov.ps</a>
Palestinian Central Bureau of Statistics (PCBS)	Website: <a href="http://www.pcbs.gov.ps/">http://www.pcbs.gov.ps/</a>
Palestinian Federation of Industries (PFI)	Ramallah: P.O. Box 574, Ramallah, Palestine; E-mail: <a href="mailto:info@pfi.ps">info@pfi.ps</a> ; Website: <a href="http://www.pfi.ps">http://www.pfi.ps</a>
Palestinian Food Industries Association (PFIA)	Ramallah- Industrial Zone P.O.190; Telephone: 972 2 2950290; Fax: 972 2 2977409; Cellular: 0599-252153; E-mail: <a href="mailto:pfia@palnet.com">pfia@palnet.com</a>
Palestine Standards Institution (PSI)	Website: <a href="http://www.psi.gov.ps">http://www.psi.gov.ps</a>
Palestine Trade Center (Paltrade)	Head Quarters (Ramallah Office): AlWatanieh Towers Bldg., 5th floor, Al-Bireh; P.O. BOX 883, Ramallah, Palestine; Tel: +970 (or 972) 2-2408383; Fax: +970 (or 972) 2-2408370 Website: <a href="http://www.paltrade.org">www.paltrade.org</a>

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Market Share Assessment:

# Leather Footwear

# PalTrade

The Palestine Trade Center

## Market Share Assessment: Leather Footwear

### 1. Executive summary

The Market Share Assessment tool was developed by the Palestine Trade Center (PalTrade) in early 2008 with support from the USAID-funded Palestine Enterprise Development (PED) program implemented by DAI. This tool aims to address the lack of information on enterprises at the sub-sector level in the West Bank and Gaza, using a combination of existing data from official sources and sector associations, and primary research conducted through enterprise-level surveys. The recommendations developed here are oriented to assist firms to improve their market share in the domestic market and to support increased exports in the longer term.

The Palestinian leather footwear sub-sector has faced intense challenges in recent years, and it is a reflection of the commitment of enterprises in this sector that domestic production continues at its current level. A combination of deteriorating economic conditions in the West Bank and Gaza (WBG), increased difficulty accessing markets, and an influx of low-cost imports from China and other sources has reduced the market size to half of what it was prior to the start of the second Intifada, with market share shrinking by nearly 25 percent.



These external factors have led to a lack of investment among domestic firms, which focus on maintaining their existence rather than innovating or upgrading. On average, the approximately 175 firms working in the West Bank today are producing at less than 40 percent of capacity and few have strategies for marketing or quality improvements.

It is expected that the leather footwear industry in Palestine will need to take an export orientation to grow. This will require upgrading in the areas of design and quality and an ability to meet international standards. Improvements to skill sets and the establishment of quality assurance protocols will need to be established over time, beginning with the support of institutes and educational facilities in Israel and Tunisia.

In the near term, efforts to level the playing field for domestic producers will require political commitment. In particular, improved Palestinian Authority (PA) capacity to track and value imports will reduce the unregulated inflow of goods.

The implementation of the necessary regulatory and physical infrastructure to test the quality of imports will also provide consumer information and protection while improving domestic price competitiveness.



## 2. Methodology

This study makes use of unaltered data from the Palestinian Central Bureau of Statistics (PCBS) and Ministry of National Economy (MoNE), and sector association estimates. While this information is the most complete in terms of time series and sub-sector level data, inaccurate and incomplete reporting suggests that official statistics underestimate the true value of annual production and sales.

To supplement official information, a representative sample of producers in each sub-sector is used to obtain information on output, regional trends, and perceptions of challenges and opportunities. For the footwear sector, 95 producers—or more than half of West Bank producers in 2007—were surveyed. This survey represents 60 percent of the total employment in this sector according to 2006 PCBS data. Finally, short perception surveys of retailers and importers provide information on distribution, marketing, and consumer perspectives.

## 3. Overview of the footwear sub-sector

Hebron is the West Bank's historic center of leather and footwear production. The sub-sector remains concentrated in this city today, with just a few companies located in Bethlehem and Nablus. The leather/tanning and footwear sub-sectors are closely aligned, with nearly all domestic production of leather used by the footwear industry.

The footwear sub-sector has long relied on outsourcing contracts with Israeli footwear manufacturers. Outsourcing initially enabled Palestinian firms to develop without investing large amounts of capital and to bypass restrictive policies instituted to prevent WBG competition with Israeli products.<sup>1</sup>

According to PCBS data, prior to the second Intifada, WBG firms sold upwards of US\$ 60 million worth of leather footwear products each year with a quarter of total sales exported to Israel in 2000.

<sup>1</sup> World Bank, West Bank and Gaza Investment Climate Assessment: Unlocking the potential of the private sector. March 2007.

Outsourcing relationships have diminished as costs of production in the West Bank have led Israeli firms to pursue opportunities in other countries of the region, and the sector expects that these relationships will continue to decline. Meanwhile, as domestic production has waned and a declining economy has impacted domestic income levels, imports from China have become an increasingly important part of the domestic market.

The footwear manufacturing sub-sector is defined by the International Standard Industrial Classification (ISIC) code 1920, a category that includes manufacture of footwear of any material and by any process, as well as the manufacture of parts of footwear such as uppers, soles, and heels but excludes footwear made of textile without applied soles.<sup>2</sup> Leather footwear accounts for the majority of footwear manufactured in the West Bank so these figures are not disaggregated.

## 4. Footwear sub-sector market analysis

Palestinian leather footwear production is split evenly between local sales and exports (primarily to Israel), but sales to both of these markets have been on the decline for the last eight years. Given the highly competitive nature of this industry and the extremely small size of the domestic market, initiatives to increase domestic market share will need to be aligned with longer term plans to improve sales to external markets.

The dynamic market share analysis graphs the performance of sectors in the domestic market at the two digit ISIC code level over the period of 2000 to 2005, the last year for which trade data is available from PCBS. This analysis is a DA1 adaptation of the Boston Matrix that is used to identify potential in trade markets and review sector trends while holding the broader economic performance constant. In this case, the analysis has been adapted to compare the recent performance of domestic sectors within the WBG market.

The value of sales is represented by the size of the bubbles while the position of the bubbles reflects the growth rate of the relative market size on the X axis and the growth rate of market share on the Y axis. Bubbles in the top right-hand corner are considered high performers that are gaining market share in a growing Palestinian market. Rubber and plastic is the sector in this quadrant—an increasing share of domestic processors is meeting growing demand. In the lower right hand corner the market is growing but domestic industries are losing market share. Textiles, paper, medical equipment, and mining and quarrying are sectors for which there is growing domestic demand that is not currently being met by domestic firms, but for which there is clear potential.

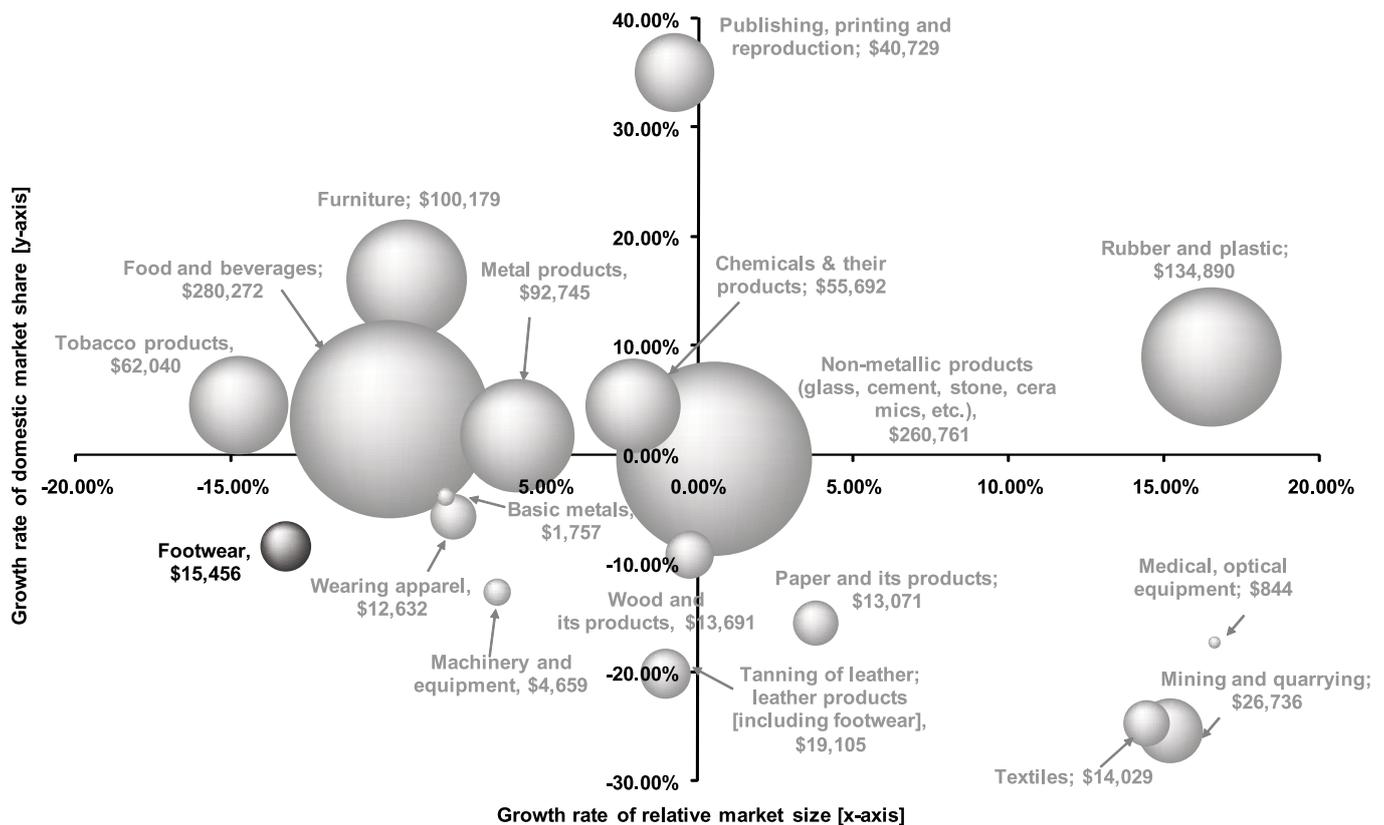
In the top left quadrant the market size for the selected manufacturing sectors is growing negatively relative to the market size as a whole, although domestic firms are gaining market share. The relative size of the domestic market for these sectors has been stable over time in the case of manufacture of glass, cement, ceramic, etc., but has been shrinking for furniture, and metals. The size of the domestic market for food and beverages sector contracted slightly between 2000 and 2005 but the share of domestic industries grew positively by a few percentage points during this time. The bottom left quadrant reflects sectors that are facing the most challenging conditions, with loss in market share and slow or negative growth in relative market size.

The leather and leather products sector as a whole lost domestic market share from 2000-2005 but the market remained relatively stable. However, the leather footwear sub-sector, which is also represented separately, saw a greater decrease in market size—as a result of the economic downturn in Palestine during the time period measured. The industry saw a slower loss in market share as imports shrank at an equivalent rate to domestic sales.

<sup>2</sup>The PCBS tracks trade and production data using the International Standard Industrial Classification (ISIC) code system, which measures the value of manufacturing. Additional clarification on the ISIC class system can be found at the United Nations Statistics Division: <http://unstats.un.org>

Figure 4-1 Dynamic Market Share of Palestinian Manufacturing

Domestic manufacturing performance in the WBG market (US\$ '000), 2000-2005



Source: PCBS, 2008; PalTrade/DAI analysis

## Trends in Domestic Market Size and Share Trends Over the Past Five Years

The picture of the footwear sub-sector over time reveals the challenges that this industry has faced since the last quarter of 2000, with the beginning of the second Intifada. While there was some initial increase in market share as it became more difficult to import from major source countries, such as China and Turkey, as internal transportation eased slightly over the next several years domestically produced shoes were replaced with cheaper models from abroad.

According to PCBS data, footwear production and sales in WBG have been variable since 2000, but the trend has been steadily downward for both domestic market size and share during this time. As seen in chart 4-2, the domestic market for footwear fell by about 50 percent from about US\$ 63 million in 2000 to US\$ 32 million in 2005.

Meanwhile, domestic market share fell from a high of 74 percent to below 50 percent. Small recoveries in both size and share were seen in 2002 and 2004 but these were not sustained as

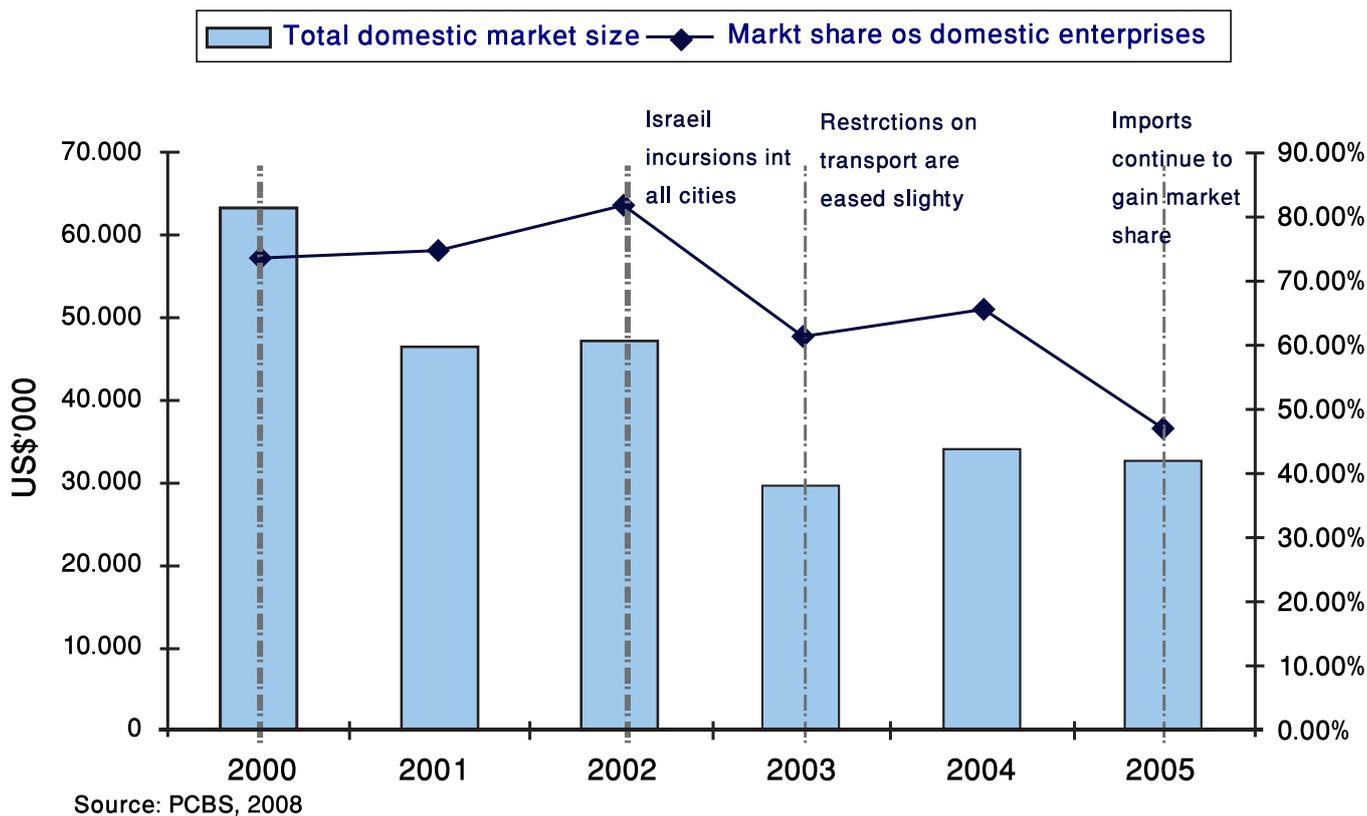
imports have continued to gain a larger share of the market over time.

PCBS data reports that domestic sales in 2006 were approximately US\$ 33 million. However, the PalTrade survey of 95 of the approximately 175 operational footwear producers in the West Bank in 2008 found that current production of 55 percent of firms is closer to US\$ 38 million. As data on imports in this year were not available from any source it is not possible to accurately estimate the total market size, but these data suggest it is larger than official statistics suggests.

However, the trends in sales and share illustrated by the PCBS data remain supported by industry experts.

The MoNE reports that there were 105 formally registered and operating firms in 2007, while the PCBS reports a total of 235 firms for 2006—a number that includes informal firms as well as some that are not currently in operation. The number used here, 175, combines the MoNE's list of enterprises with the list of members in the Palestinian Leather Industries Union (PLIU), eliminating any duplicates.

Figure 4-2: Trends in Domestic Market Size and Share of Footwear, 2000–2005



This number is about one quarter of what it was in 2000.

2006 employment levels are estimated to be approximately 50 percent of pre-2000 levels. The PLIU estimates that in 2007 the actual number of employees was close to 2,500, with firms employing an average of 14 workers each.

The PalTrade producer survey found that the mean number of employees in 2008 is 10 full-time employees and between three and four part-time employees.

In addition to a shrinking number of domestic enterprises, the capacity utilization of domestic firms today is quite low. While nearly 30 percent

of firms report maximum monthly production capacity of US\$ 100,000 or more, only about nine percent of firms report their current production at that level and current sub-sector mean production is reported to be US\$ 36 million a month. On average, firms with the maximum capacity output between US\$ 0 and US\$ 49,999 were producing at 34 percent capacity, while those with capacity of over US\$ 250,000 were operating at 20 percent of capacity in 2008.

The PLIU supports the above averages, reflecting that capacity utilization may range between 50 percent or more in some months and closer to 0 in others.

Figure 4-3 Trends in Establishments, 2000–2006

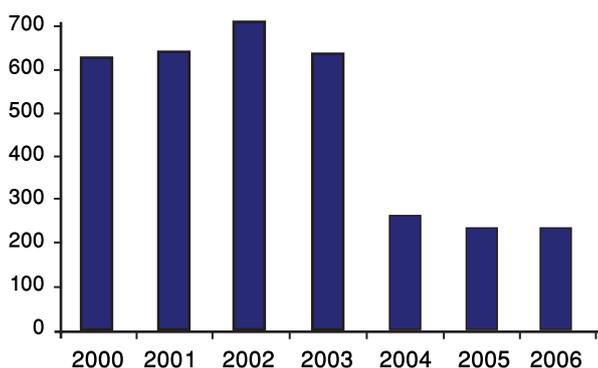


Figure 4-4 Trends in Employment, 2000–2006

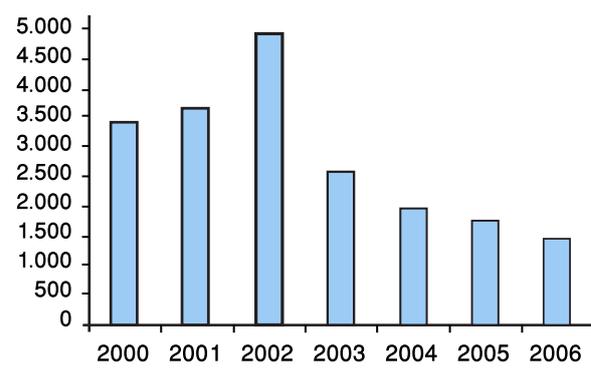
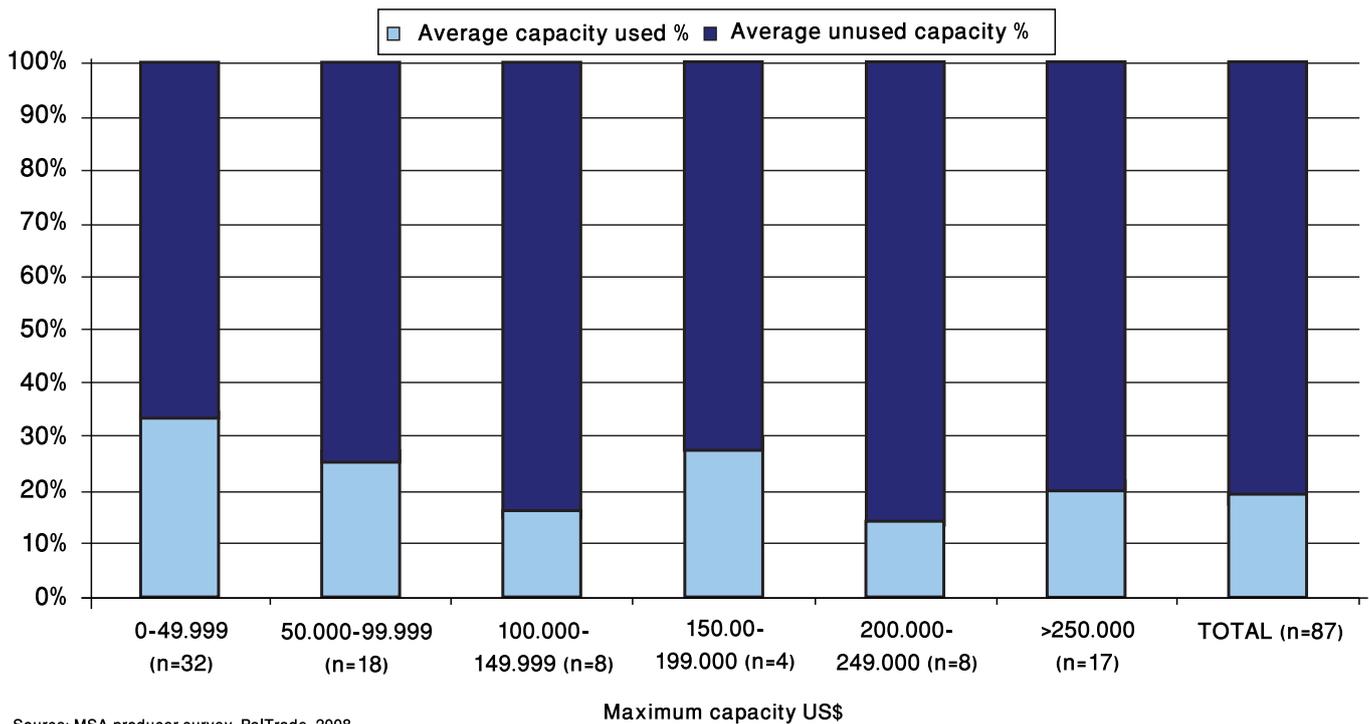


Figure 4-5 Capacity Utilization of Sampled Domestic Firms



Source: MSA producer survey, PalTrade, 2008

## Geographic Distinctions in Production and Sales

Figure 4-6 illustrates the distribution of sales by domestic producers around WBG and including Israel and other regions. The percentages increasing in 2007 do not reflect increased sales but rather shifts—sales to all regions have decreased in actual value but as sales to Gaza have fallen off, other regions and Israel have seen increases.

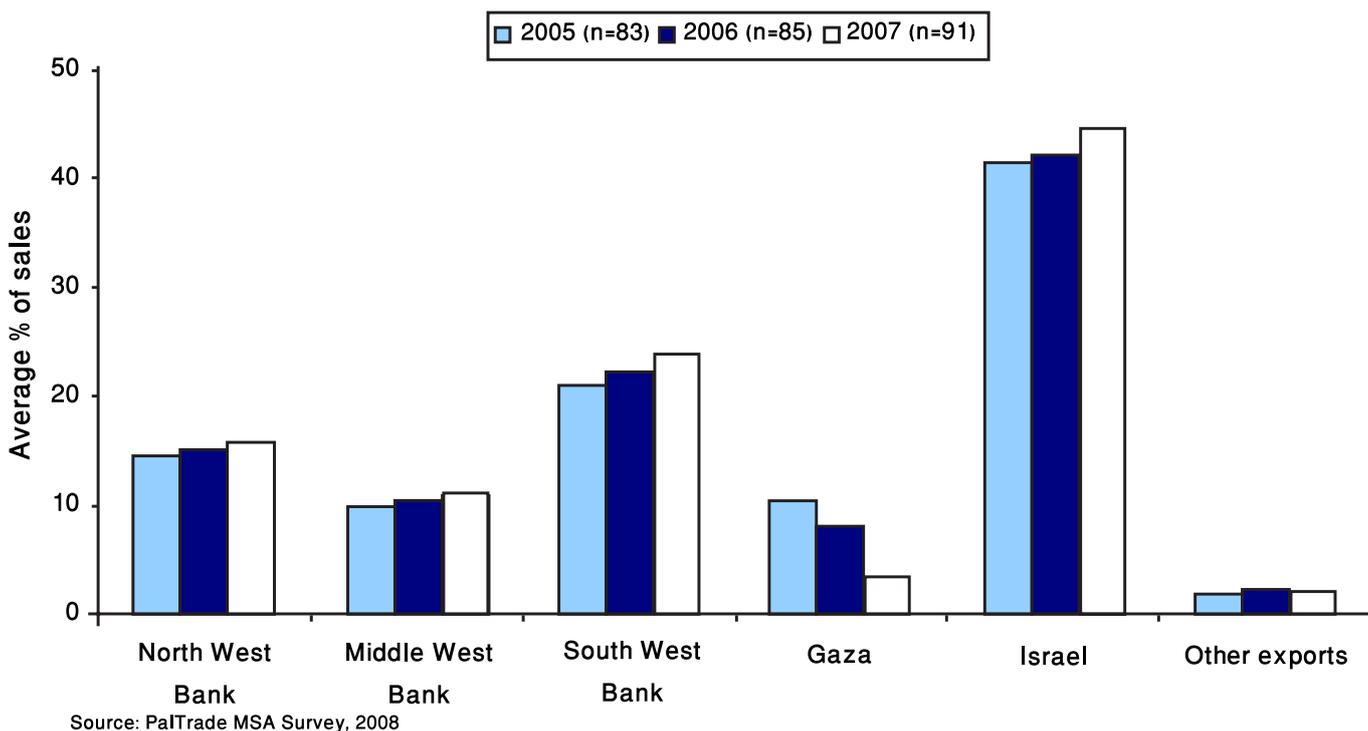
The percentage of sales within the West Bank is highest in the south, in the region where the products are made. The south is also an important market for imported products, but many of these are accessories and other footwear inputs. Domestic producers face some challenges in the central West Bank, in particular Ramallah, because consumers there tend to place a higher priority on fashion and quality. Domestic producers cannot provide the variety demanded in this market.

Exports—predominantly sold through outsourcing contracts with Israel as shown in chart 4-6—have

increased as a percentage of total sales over the last few years, from 34 percent in 2000 to 67 percent in 2005. However, in terms of total value, sales have dropped by one third. Companies are split relatively evenly between those that only export, those that only sell to the local market and those that sell primarily to the local market with some exports. The vast majority of exports flow across Israeli cross points, with a small percentage crossing over the bridge to Jordan for exports to Yemen and other countries of the region.

Raw materials including wax, accessories, dyes, glue, and artificial leather are imported from Turkey, Italy, Israel, and Portugal and obtaining raw materials for the footwear industry does not appear to be a problem for producers. 80 percent of producers have no trouble importing raw materials and 95 percent report that there are no restrictions on the quantity of imports. Checkpoints and delays are the main challenges, followed by restrictions on chemical imports (for example the glue used in footwear manufacturing) and the inability to take advantage of bulk rates due to the small levels of production.

Figure 4-6 Geographic distribution of sales



## 5. Competitive sub-sector analysis

### Differentiation of Products: Price/Quality

Gauging the importance of various competitive characteristics, 97 percent of producer survey respondents felt that quality was important or very important, compared to 92 percent for taste (fashion), and 82 percent for price. Other factors include the brand name, the packaging, the degree to which the firm supports the community, and finally, certifications. 90 percent of respondents believe that attaining the required quality is not a problem, while attaining the required price is difficult.

Low cost footwear imports from China are viewed as a primary threat to the Palestinian footwear industry. Even as consumer perceptions of Chinese products are negatively impacted by reports of low quality and unsafe materials, economic circumstances drive many consumers to purchase the least expensive option. Furthermore, without a set of common quality standards for footwear imports, or legal and physical infrastructure in place for testing, there is no mechanism in place to regulate imports.

The Palestine Standards Institution (PSI) has developed approximately 50 voluntary standards for domestic firms in the footwear sector, related to quality management systems as well as technical quality specifications. However, more than 80 percent of footwear manufacturers do not have quality management departments and more than 95 percent have not obtained standards certification. According to the PSI, one local firm that specialized boots has actually obtained ISO certification, but this company is unique in the sub-sector. The absence of specialized testing facilities in WBG means that the costs of certification are simply too high for domestically oriented producers.

Finally, quality is negatively impacted by the lack of technological upgrading in this industry. About 70 percent of footwear manufacturing companies are more than 10 years old, with a mean age of 16 years. In line with the age of the firms, about 30 percent of basic equipment used in this industry is more than 28 years old and 63 percent of equipment is more than 19 years old.

## Differentiation of Products: Marketing Strategies

Only 30 percent of firms in the Palestinian footwear industry develop marketing plans on a regular basis. 56 percent of these firms prepare short term (weekly to six month) business or marketing plans, while 17 percent attempt to learn more about local and export markets to better understand consumer requirements and tastes, and 10 percent state that they are focused on market expansion. The majority of firms do not market to retailers—only about 30 percent of firms provide incentives for vendors to promote their products—even though direct sale to retailers is the most important channel for reaching the local market for 67 percent of manufacturers. In contrast, the majority of importers/distributors surveyed offer incentives to vendors to promote their products.

Targeting and promotional activities are understood and used by some portion of producers, but by no means all of them. In terms of identifying and orienting their product to a target market, a quarter of producers do not target any income group, while fewer than 20 percent of producers report targeting higher income groups in WBG, and 50 percent target an average income group. Producers view commercial exhibitions, campaigns, and billboards as the most important means of promotion. 52 percent of producers cite commercial exhibitions as important or very important, while 50 percent also support the use of billboards. Radio/TV/newspapers and printed materials are viewed as important by a similar percent of producers.

## Retailer Perceptions

A short non-representative survey of footwear retailers in the West Bank was conducted to obtain additional perceptions on the competitive constraints and opportunities for local producers in this industry. This survey revealed that retailers purchase approximately 60 percent of their inventory from abroad, with half purchasing only imported products.

The majority of retailers chose price as the primary factor in purchasing decisions, followed by taste (fashion) and, at a distant third, quality. However, in terms of what consumers prefer, retailers rated trust and previous experience as the most important factors, followed by an equal weighting between price, quality, and taste.

Importers and distributors also reported that trust and experience are among the most important criteria, and that imports are more highly trusted than domestic goods. Overall, however, retailers suggest consumer preference for imports and locally produced footwear is about equal.

There is support for local goods in the Palestinian leather footwear market, and high level skills and experience, but as economic conditions force consumers to rely on lower cost imports the domestic industry is shrinking. The external threats to this industry are significant and if support from the Palestinian Authority is not forthcoming, the expectation is that this industry will continue to decline. The PLIU is working to coordinate the industry to supported needed changes at the policy and production level, with the longer term goal of raising capacity to access external markets.

## Strengths, Weaknesses, Opportunities, and Threats (SWOT)

Information on the strengths, weaknesses, opportunities, and threats in the footwear sub-sector was gathered through the PalTrade surveys and extensive consultation with the PPIA leadership and members.

The dairy industry in the West Bank is highly competitive in the domestic market and as the policy framework begins to support additional standards certification processors can further capitalize upon their strong reputation for quality and taste. The firms in the dairy industry are also relatively large compared to the average Palestinian enterprise and are better able to obtain economies of scale in production and distribution.

Difficulties in transportation within the territories are critical for this sub-sector due to the short time frame required for products to get from processor to retailer and the need for a consistent cold chain. Restricted access to Gaza has effectively eliminated this region as a market for firms in the West Bank. Furthermore, Israeli imports have strong reputations for quality and taste in the Palestinian market and specialty and top quality goods obtain a premium at the retail level. Israeli products are also subject to different regulations and typically have a longer expiration period.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Historically important national industry</li> <li>• Strong technical skills and experience</li> <li>• Support for local goods among consumers</li> <li>• Growing strength of the footwear association</li> <li>• Strong coordination between leather and footwear manufacturers</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of training in product design</li> <li>• Lack of understanding of market demand</li> <li>• Lack of development of marketing plans</li> <li>• Outdated machinery</li> <li>• Diminishing outsourcing contracts with Israel</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• The development/strengthening of quality standards for imports/domestic products</li> <li>• Improved tracking of imports</li> <li>• Niche markets such as children's shoes</li> <li>• Access to the Israeli market</li> <li>• Access to other external markets</li> <li>• Support for industry from PA</li> </ul>	<ul style="list-style-type: none"> <li>• Unregulated influx of low cost imports</li> <li>• Higher profit margin for importers than producers</li> <li>• Israeli-imposed restrictions on chemical imports</li> <li>• High cost of transportation</li> <li>• Gaza closures</li> <li>• Weak economic conditions in northern West Bank</li> <li>• Political instability</li> </ul>

## 6. Recommendations and interventions

A combination of advocating for better regulation of imports and improving quality and innovation in the sector will strengthen domestic sales in the short term, and support Palestinian exports in the longer term. Furthermore, while this MSA provides a baseline for information on the leather footwear sub-sector, a large gap in capacity to obtain accurate industry statistics in WBG remains. Additional research is also needed at the value chain and product levels to better understand the costs faced by the industry and to develop company-specific recommendations.

### Advocacy

Current imports are thought to be underreported by as much as 60 percent, both depriving the PA of tariff revenue and flooding the domestic market with unregulated imports. The PA is reportedly undertaking a new approach to monitoring imports with the goal of tracking 100 percent of value by the end of 2008.

- Advocate for improved tracking and valuation of imports, supporting the PA to achieve this goal;
- Advocate for the development of a policy framework governing quality testing for footwear imports.

### Quality standards

A related issue is the need to improve quality standards for eventual export. While technical standards exist, compliance is prohibitively expensive for producers for the domestic market. Any effort to address quality standards in this industry will need a long term agenda and will likely be led by exporting firms.

- Work with the Palestine Polytechnic University (PPU), PLIU, and PalTrade to support the development of a specialized laboratory for testing imports;
- Support trade missions, such as the recent PalTrade Footwear mission to the Tunisian National Center for Leather ;
- Develop trainings in PA and international standards.

### Design

Imports are gaining ground in Palestine in both the low quality/low cost markets and the higher price/higher fashion markets. While competing on cost is not a valid competitive strategy for Palestinian producers, they also lack the training and capacity to innovate in design for higher end markets.

- Work with the Palestine Polytechnic University (PPU), PLIU, and PalTrade to develop training and technical programs;
- Hold training workshops for producers with international experts including business to business programs with producers in nearby countries;
- Support students to attend training courses at the National Center for Leather and Footwear in Tunisia;

Coordinate with the footwear design program at the Shenkar College of Engineering and Design in Israel.

## PSD Training

Producers and retailers need assistance to modernize the way they do business to improve efficiency and quality. The sub-sector is weak in financial management, marketing, understanding the consumer, design, packaging, and quality standards throughout the value chain.

- Financial management systems: Better financial tracking will improve efficiency and enable firms to obtain investment and/or donor support;
- Marketing plans: Marketing campaigns should highlight quality and fashion and promote consumer awareness;
- Promotional activities: Buy local campaigns, such as "Our Product" have been successful in the past. Commercial exhibitions highlighting Palestinian-made goods should be located in the different regions of the West Bank;
- Understanding the consumer: Improved communication between producers and retailers to feed back consumer information.

## Information strengthening

Ongoing lack of accurate enterprise information makes it impossible for both the private sector and policy makers to plan effectively.

- Support the PLIU to gather information from its members;
- Develop an effective system for sub-sector information distribution;
- Improve cooperation among sector associations and the PCBS;
- Conduct a needs assessment of the PCBS to improve capacity to gather and disseminate economic data.

## Additional research

Broad-based recommendations are possible for the sub-sector as a whole, but linking firm level activities to increases in domestic market share will require additional in-depth research.

- Value chain mapping for leather footwear;
- Analysis of the potential of niche markets/specific products;
- A consumption survey to identify opportunities in cost/positioning/marketing/etc. and drive company level decisions;
- Identify and estimate costs of regulatory constraints to the footwear sub-sector.

## Supporting Institutions

Institution	Contact information
Ministry of National Economy	Website: <a href="http://www.mne.gov.ps">www.mne.gov.ps</a>
Palestinian Central Bureau of Statistics (PCBS)	Website: <a href="http://www.pcbs.gov.ps/">http://www.pcbs.gov.ps/</a>
Palestinian Federation of Industries (PFI)	Ramallah: P.O. Box 574, Ramallah, Palestine; E-mail: <a href="mailto:info@pfi.ps">info@pfi.ps</a> ; Website: <a href="http://www.pfi.ps">http://www.pfi.ps</a>
Palestinian Leather Industries Union (PLIU)	Hebron: Tel/Fax:2215986 Email: <a href="mailto:pliu2000@yahoo.com">pliu2000@yahoo.com</a>
Palestine Polytechnic University (PPU)	Hebron: Website: <a href="http://www.ppu.edu/">http://www.ppu.edu/</a>
Palestine Standards Institution (PSI)	Ramallah: Website: <a href="http://www.psi.gov.ps">http://www.psi.gov.ps</a>
Palestine Trade Center (Paltrade)	Head Quarters (Ramallah Office): AlWatanieh Towers Bldg., 5th floor, Al-Bireh; P.O. BOX 883, Ramallah, Palestine; Tel: +970 (or 972) 2-2408383; Fax: +970 (or 972) 2-2408370 Website: <a href="http://www.paltrade.org">www.paltrade.org</a>

A large, light gray decorative graphic consisting of intricate, swirling floral and vine patterns, positioned behind the main text.

**PalTrade**  
The Palestine Trade Center

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Market Share Assessment:

# Garment Manufacturing

# PalTrade

The Palestine Trade Center

## Market Share Assessment: Garment Manufacturing

### 1. Executive summary

The Market Share Assessment tool was developed by the Palestine Trade Center (PalTrade) in early 2008 with support from the USAID-funded Palestine Enterprise Development (PED) program implemented by DAI. This tool aims to address the lack of information on enterprises at the sub-sector level in the West Bank and Gaza, using a combination of existing data from official sources and sector associations, and primary research conducted through enterprise-level surveys. The recommendations developed here are oriented to assist firms to improve their market share in the domestic market and to support increased exports in the longer term.

The Palestinian garment sector was recently one of the most important sectors for employment and the economy at large. Following the start of the second Intifada, however, the sector began to shrink and it has been on a downward trend throughout the 2000s. According to the 2008 Palestinian Investment Conference Guide, local garments and textile sector contributes roughly 15 percent of Palestinian manufacturing output, and employs 10 percent of the labor force. Palestinian textile and garment producers sell approximately 70 percent of their production locally representing 20 percent of local market share.



Roughly 20 percent of Palestinian producers' output is exported to Israel for the Israeli market and re-export.

The reasons for this decline are to some extent external to the sector, including reduced Israeli production of garments as that economy shifts away from labor intensive manufacturing, increased difficulty and expense obtaining raw materials, and the rise of low cost imports from China. However, there are also a number of areas in which Palestinian producers can build competitiveness, and the Palestinian Authority and other institutions can support them to do so.

It is expected that the garment industry in Palestine will need to take an export orientation to grow. This will require upgrading in the areas of design and quality and an ability to meet international standards. Improvements to skill sets and the establishment of quality assurance protocols will need to be established over time.

In the near term, efforts to level the playing field for domestic producers will require political commitment. In particular, improved Palestinian Authority (PA) capacity to track and value imports will reduce the unregulated inflow of goods. The implementation of the necessary regulatory and physical infrastructure to test the quality of imports will also provide consumer information and protection while improving domestic price competitiveness.

## 2. Methodology

This study makes use of unaltered data from the Palestinian Central Bureau of Statistics (PCBS) and Ministry of National Economy (MoNE), and sector association estimates. While this information is the most complete in terms of time series and sector and sub-sector level data, inaccurate and incomplete reporting suggests that official statistics underestimate the true value of annual sales.

To supplement official information, a representative sample of producers in each sub-sector is used to obtain information on output, regional trends, and perceptions of challenges and opportunities. Due to the closure of many Gaza based firms this analysis focuses on the West Bank with a survey of 18 producers, 10 retailers, and 10 importers/distributors. These two short surveys provide additional information on distribution, marketing and consumer preferences.

## 3. Overview of the garment sector

As recently as 2000 the garment industry was one of the largest industrial sectors of the Palestinian economy. That year the sector earned \$126 million, or about 15 percent of gross industrial output. At that time there were approximately 2,650 firms in the West Bank and Gaza making

this the largest sector in Gaza and the third largest in the West Bank in terms of number of firms.

However, the political and economic conditions since 2001 have led to a dramatic drop in this sector. Today domestic output of garments is likely between US\$55 and US\$95 million, depending on 2006 PCBS data and estimated results from the 2008 Paltrade producer survey. The garment manufacturing sector analyzed here is defined by the International Standard Industrial Classification (ISIC) code 1810, a category that includes the following products produced in Palestine:

- manufacture of wearing apparel for men, women, children and babies,
- manufacture of outerwear
- manufacture of underwear and nightwear
- manufacture of normal, formal, work (uniforms) or sport clothing,
- Manufacture of hats and caps and
- Manufacture of all kinds of clothing accessories such as gloves, belts, shawls, ties, cravats, hair nets, etc.

The garment industry is very labor intensive, due to the fact that very few steps of the manufacturing process, such as cutting and button sewing, can be automated.

The geographic distribution of garment producers surveyed, by major West Bank city, includes Ramallah and Al Bireh (30 percent), Nablus (17 percent), Bethlehem (17 percent), Tulkarem (17 percent) and Jenin (6 percent). All firms were started before 2000 and they function with an average of 21 full time employees (ranging from 1 to 77) and anywhere from 10 to 2,800 square meters of operation space.

The domestic garment sector has suffered in recent years, in the face of a shrinking market, high costs of production, and increased competition from Chinese and Turkish imports.

## 4. Garment sector market analysis

The Palestinian garment sector has traditionally served as a major outsourcing base for Israeli manufacturers—a 2006 Paltrade sector brief on the textile and garment industries found that 95 percent of companies were subcontractors to Israeli firms. However, the garment industry in Israel is on the decline, as Israel increasingly imports garments and firms there source from other countries. As a result, the role of Israel in supporting this industry domestically is waning.

Palestinian producers continue to depend on Israeli agents to obtain raw materials originating primarily in China, Turkey, and other countries of South and Southeast Asia.

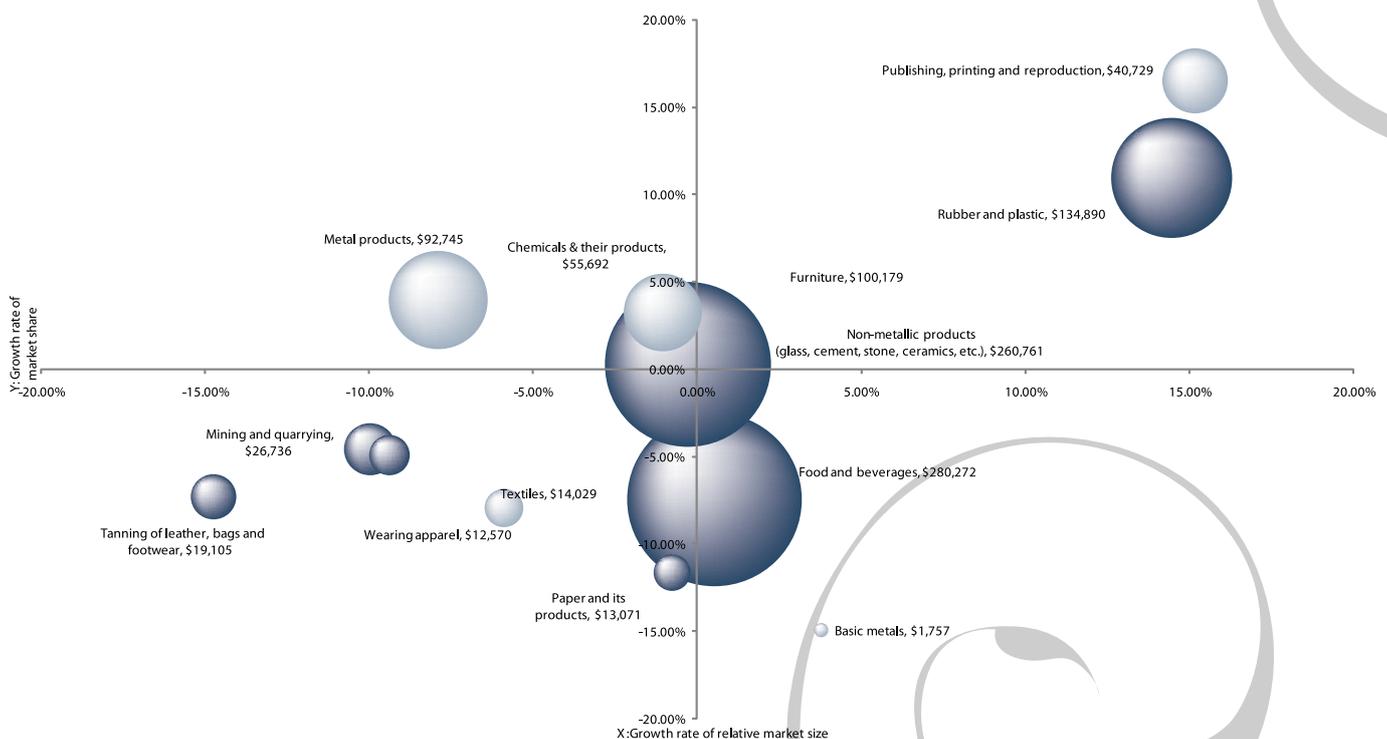
The dynamic market share analysis graphs the performance of sectors in the domestic market at the two digit ISIC code level over the period of 2000 to 2005, the last year for which trade data is available from PCBS. This analysis is a DAJ adaptation of the Boston Matrix that is used to identify potential in trade markets and review sector trends while holding the broader economic performance constant.

In this case, the analysis has been adapted to compare the recent performance of domestic sectors within the WBG market.

The value of sales is represented by the size of the bubbles while the position of the bubbles reflects the growth rate of the relative market size on the X axis and the growth rate of market share on the Y axis. Bubbles in the top right-hand corner are considered high performers that are gaining market share in a growing Palestinian market. Publishing, printing and reproduction is the sector in this quadrant with the highest growth rate in both market share and size, followed by rubber and plastic—in both cases an increasing share of domestic processors is meeting growing demand.

The Furniture sector as a whole is also “a rising star” in this scenario, with slightly positive growth in both market size and share.

In the lower right-hand corner the market is growing but domestic industries are losing market share. Basic metals is the sector for which there is growing domestic demand that is not currently being met by domestic firms.





apparel, or garments, are in this sector.

## Trends in Domestic Market Size and Share Trends Over the Past Five Years

According to official data from the PCBS, domestic market size and share in garments initially rose following the start of the second Intifada before the market size dropped by about 50 percent in 2002. Market share has been falling since 2001, from a high of nearly 60 percent to below 30 percent by 2005.

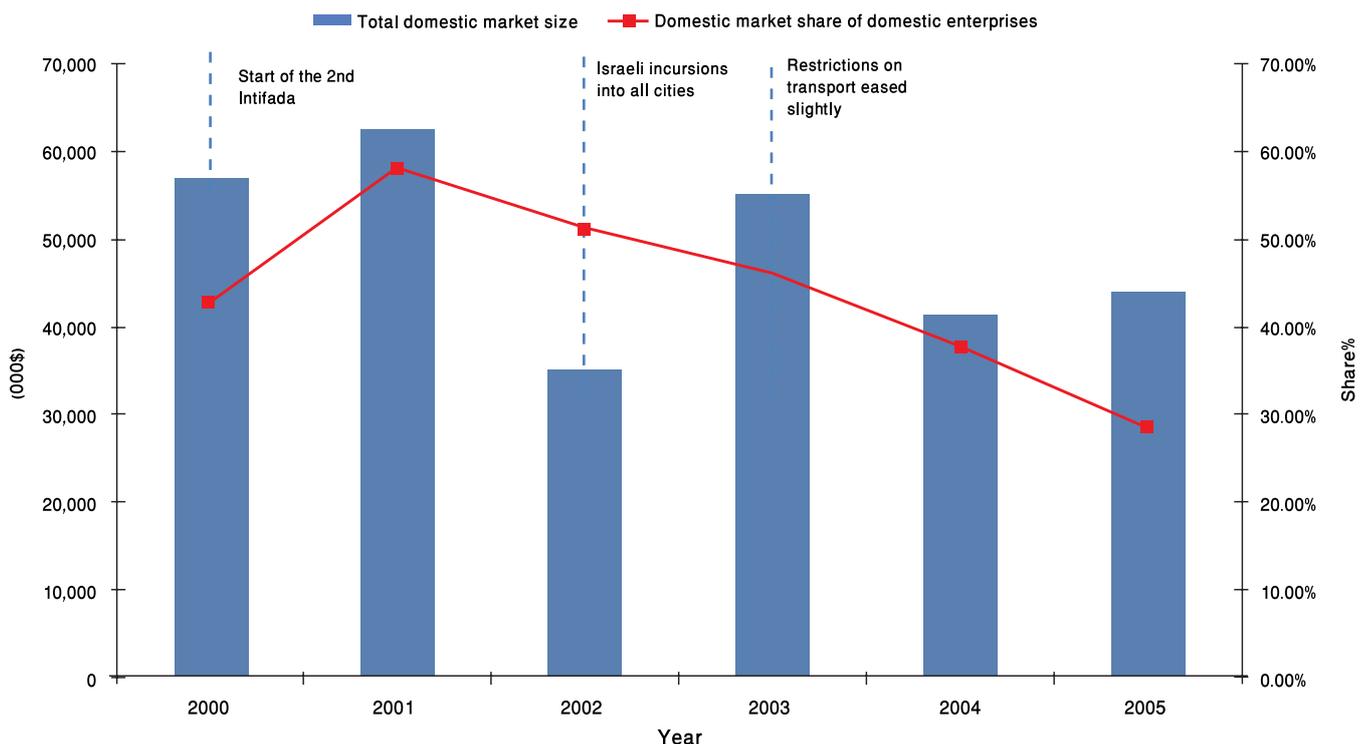
In the top left quadrant the market size for the selected manufacturing sectors is growing negatively relative to the market size as a whole, although domestic firms are gaining market share. Chemicals and metal products fall into this category.

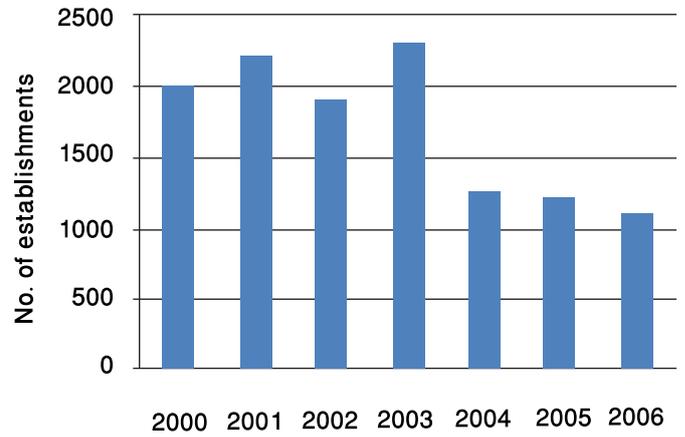
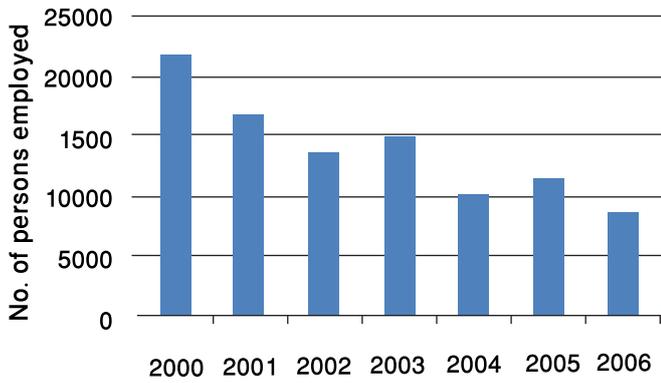
Finally, in the lower left hand quadrant are the products that face the most challenging scenario in the WBG market, as they are losing market share in a declining market. Textiles, and wearing

Employment trends in the West Bank and Gaza have followed this steady decline, from more than 20,000 in 2000 to fewer than 10,000 in 2006.

The data on firm numbers illustrate Palestinian efforts to hold on in this sector up through 2003. By 2004 however, firm numbers had dropped by half and since that time followed a slight downward trend to 1,000.

According to 2008 survey data the maximum capacity of the largest company surveyed is approximately US\$500,000 per month, but this number is not representative of the industry as a whole. There are only two firms with monthly output





higher than US\$50,000 and some firms report output as low as US\$300 per month.

There is a wide variety in capacity utilization as well, with larger firms tending to perform somewhat better in terms of the percent of their maximum capacity currently being used. The average of surveyed firms (15 out of 18 of which responded completely to questions regarding output) is 77 percent.

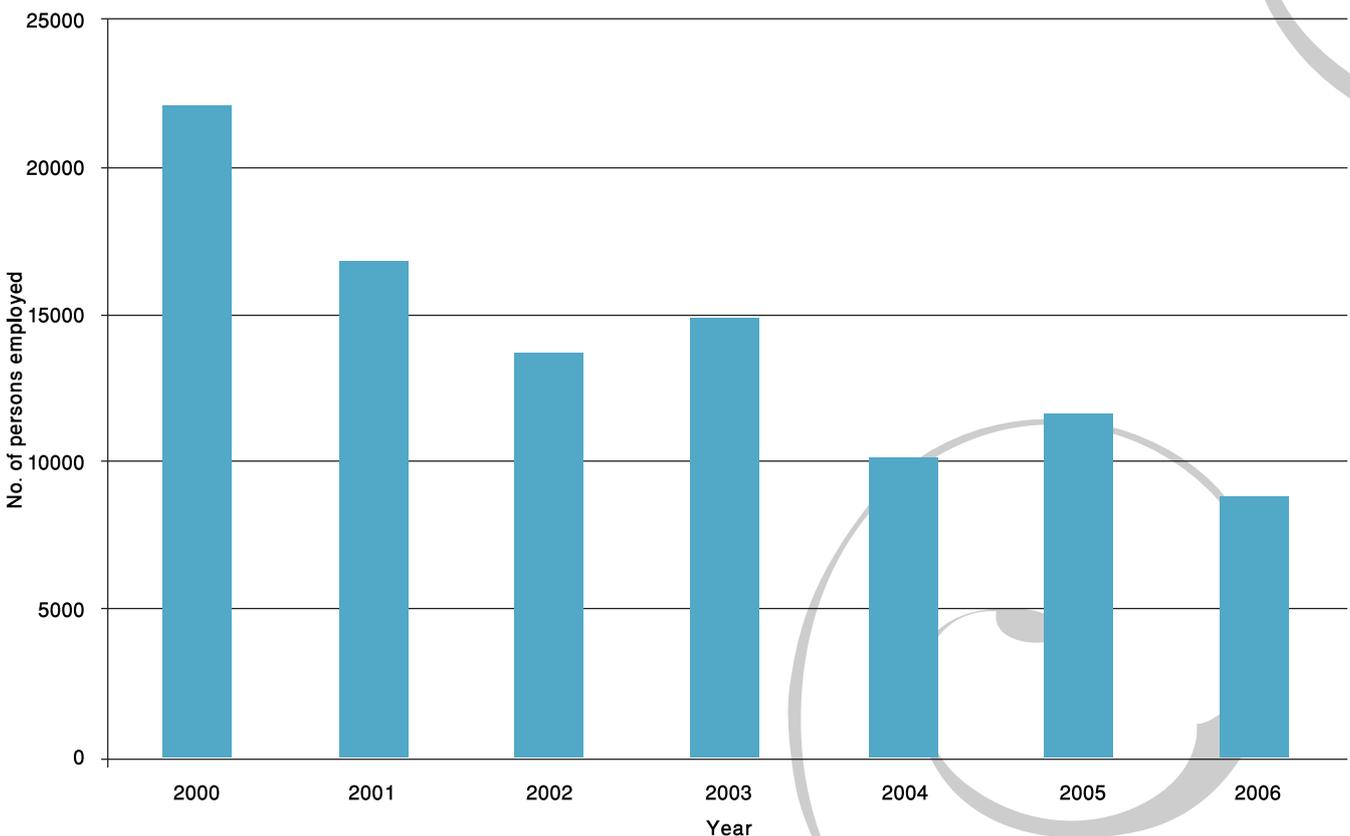
### Geographic Distinctions in Production and Sales

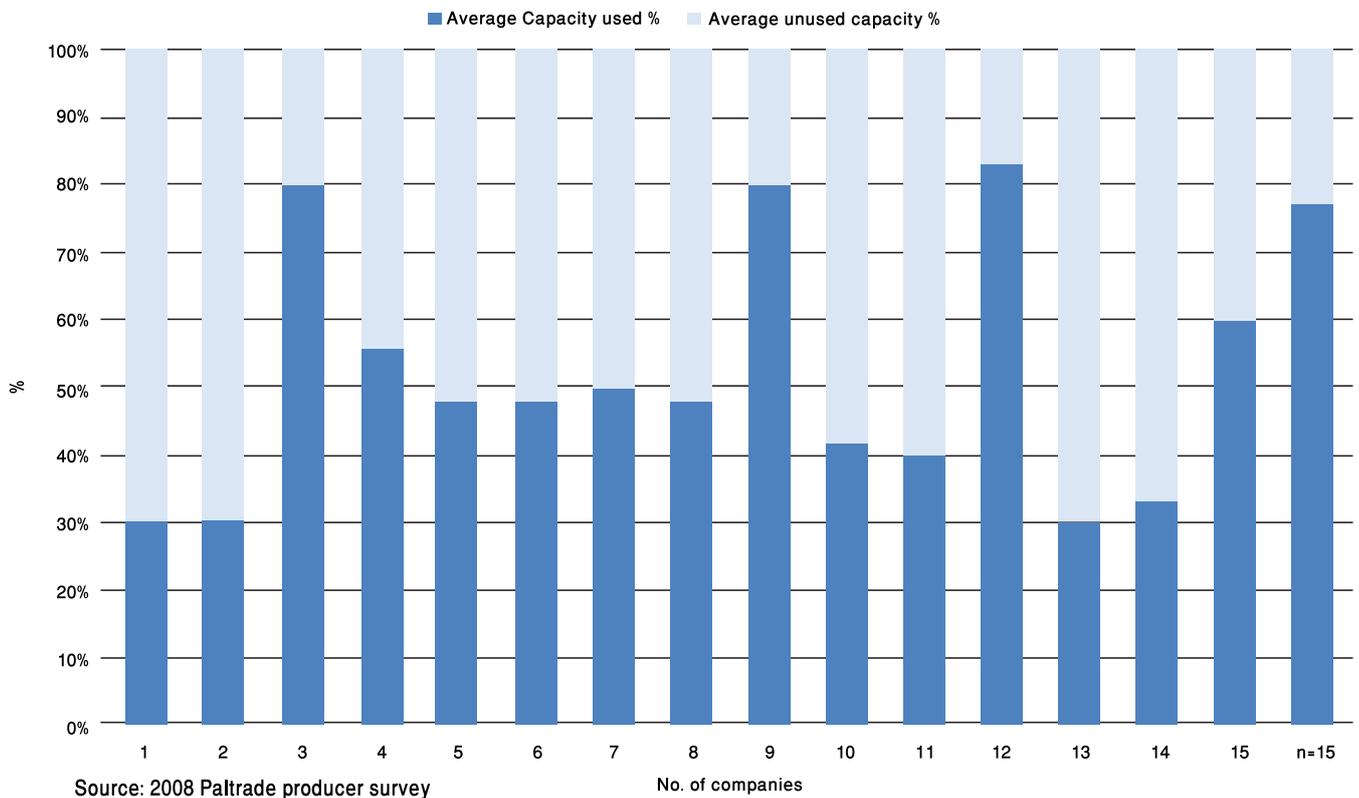
Regional trends in garment sales within the West Bank and Gaza have remained stable over the last 7 years according to surveyed firms. 50 percent of firm sales are typically to the middle of the West

Bank, 15 to the Southern region, and just over 10 percent to the North.

Israel continues to receive 15 percent of sales and just over 5 percent of sales were exported to other markets since 2005.

78 percent of importers and distributors import products from South East Asia, and while 65 percent of firms import from Israel imports from Israel have decreased over the last several years. Firms importing from European Union countries increased significantly from 15 percent in year 2000 to 70 percent in 2007, suggesting that low cost imports are not the only competition. It is also noted that around one quarter of the surveyed firms are importing from the Arab Countries.





During 2000 to 2006, most importers targeted the southern area of the West Bank, which is the most populous region. However, in 2007, the companies started to focus more on the north area of the West Bank. None of the surveyed companies are targeting the Gaza market, due to the access restrictions imposed by the Israeli military and resulting difficulties in moving goods in and out of Gaza.

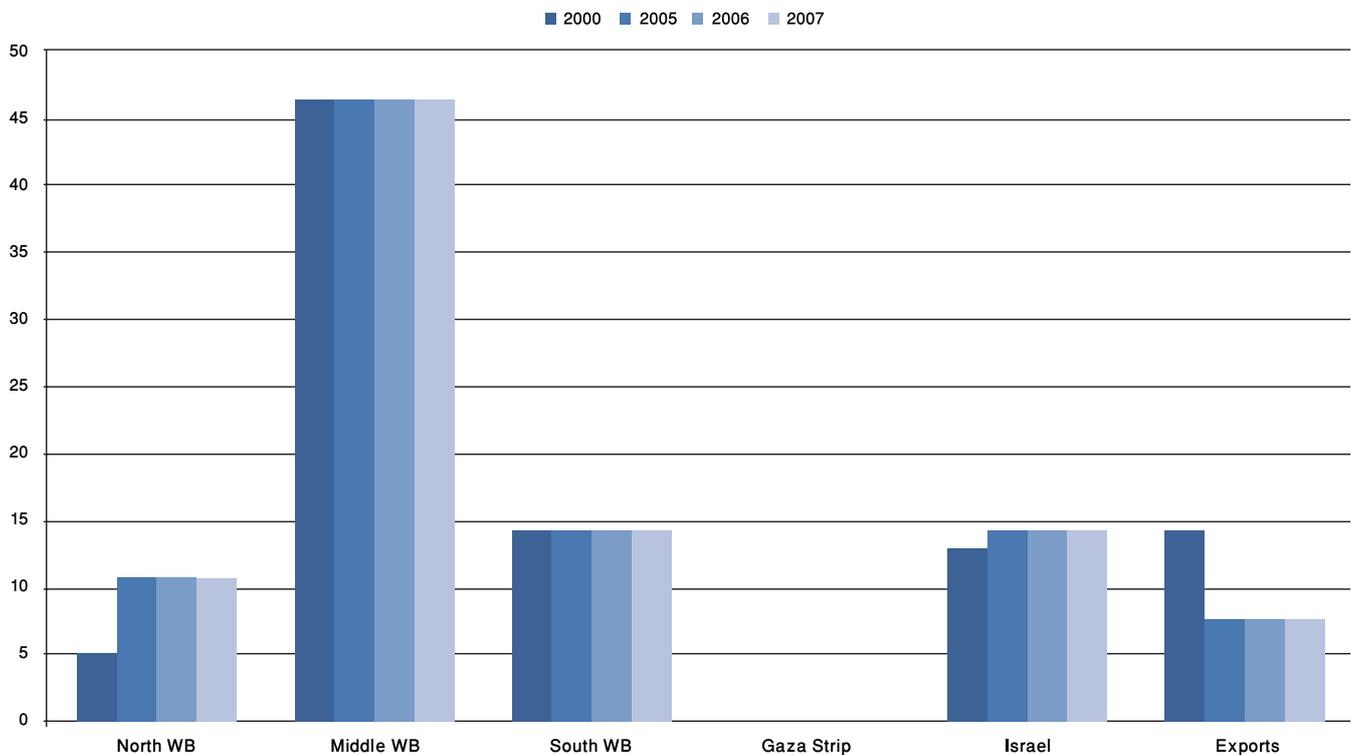
According to the 2006 Paltrade briefing paper on this industry, there is still potential to repair the outsourcing relationship with Israel that has long been the mainstay of domestic garment production. Close proximity means that Palestinian manufacturers have competitive advantage in rapid response time and can have the potential to work on low-run high-end fashion that requires more oversight than is possible with overseas firms.

Producers find a number of challenges in importing raw materials. 46 percent reported that Israeli restrictions are the biggest obstacle while financial difficulties (access to trade finance) were cited by 15 percent of respondents.

Limitations on quantities of imported raw materials are another challenge for producers. 40 percent reported that importer control over raw materials is a major hurdle and 40 percent cited high taxes as a key constraint.

When asked about the biggest obstacles in importing from foreign markets, 77 percent of importing/distributing firms reported the difficulties in the borders and cross points procedures as the number one barrier. Other barriers included: internal checkpoints (70 percent), importing procedures and obstacles at points of entries (61.5 percent), high cost of customs (46 percent), and high taxes and fees (46 percent).

Regarding distribution in the local market, crossing Israeli barriers and checkpoints are the main constraint to internal distribution. Around 62 percent of importers/distributors said they face very significant difficulties in competing with the local products although they believe that imported goods sell better in the local market than those produced locally.



## 5. Competitive sub-sector analysis

### Differentiation of Products: Price/Quality

100 percent of firms cited price as an important or very important factor in determining competitiveness, followed by 82 percent citing quality certification, and 50 percent prioritizing quality. Given the economic constraints facing Palestinian consumers this emphasis on price has supported the rise of lower quality, lower cost goods from China.

Importers also focus on price, quality, and design as key factors. However, around 54 percent of the firms think that the quality of the imported wearing apparel is better than the quality of the locally produced products, while 62 percent think that the local products have the advantage of lower prices. This reflects the differing levels of imports—higher quality imports from Israel and elsewhere do obtain higher prices.

As with many other industries, the structure of the Palestinian garment sector—and the constraints it faces—means that this sector cannot compete with imports on price. Therefore, any strategy to improve the competitiveness of this sector must focus on quality.

Three out of 18 firms reported that they had a quality management department, and the largest garment manufacturer surveyed is certified according to the International Standards Organization's Quality Management Systems.

However, it is challenging for firms to obtain qualified quality management personnel, even if they are interested and able to do so as this skill set is almost entirely absent in the Palestinian labor force. Furthermore, there are no required standards for either production or imports.

Only two firm surveyed are using primary equipment that are less than 10 years old while 5 firms are using machines that are more than 20 years old. In general because this industry is not focused on mass production, the age of machinery has not proven to be a major issue for many firms. Most machines are semi or completely manual and do not require maintenance from highly skilled professionals.

### Differentiation of Products: Marketing Strategies

According to the 2008 producer survey, marketing plans are not the norm in the West Bank garment sector—only 11 percent of firms surveyed have developed marketing plans of any kind. This type of activity is less relevant for firms that are serving as outsourcing location for Israeli firms, but for those prioritizing local sales and exports to other

markets, marketing initiatives are essential. This is particularly true as 12 out of 18 firms cited both the high end and middle range markets as important or very important to target (following the focus on quality over price).

53 percent of the sampled firms offer incentives to distributors or agents to promote their goods. Commercial exhibitions are the most highly ranked promotional activities among garment producers, followed by incentives for retailers and promotional campaigns.

## Retailer Perceptions

A short non-representative survey of garments retailers in the West Bank was conducted to obtain additional perception data on the competitive constraints and opportunities for local processors. The majority of garments retailers are located in Ramallah and Al-Bireh (30 percent) and Jenin (30 percent), and Nablus (20 percent). Retail businesses are typically family-owned and operated with an average of two employees and 131 square meters in size. Marketing expenditures are low, averaging \$1,750 per year.

72 percent of the surveyed retailers procured their goods from distributors of imported goods. The estimated annual average value of imported goods per retailer was \$32,003 per year. Around 60 percent of the retailers procured their goods from distributors of the local products with an annual average value of \$20,424. Inventory purchasing decision is based on price, quality, product design, packaging, brand name, and certification. Each firm places a different degree of importance on each of those factors.

The main challenges retailers face when importing goods, include difficulties in establishing contact and communicating with importers/sellers, difficulties in obtaining consistent supply of goods, high cost of importing, and problems in getting goods through Israeli-controlled borders and checkpoints. Out of the above mentioned challenges, the respondents most often voiced higher costs (50 percent), difficulties in crossing checkpoints and borders (50 percent) as the most challenging aspects of conducting business.

60 percent of the respondents do not consider local marketing campaigns such as “Buy Your Local Products”, and local trade shows and exhibitions to be very effective in influencing consumer purchasing decisions and the same percentage indicated that Palestinian consumers still favor imported garments over locally produced ones. To better promote local products and encourage customers to buy locally made garments, the majority of companies believe it is important to lower prices of local products, organize marketing campaigns, improve the quality of the locally produced products, and have more diversity in the types of products.

## Strengths, Weaknesses, Opportunities, and Threats (SWOT)

Information on the strengths, weaknesses, opportunities, and threats in the garment sector was gathered through the PalTrade surveys and other resource materials, including PalTrade’s 2006 briefing paper on the Palestinian Garment and Textile Sector.

The garment industry in the West Bank is losing competitiveness in the domestic market and facing serious challenges in other primary markets such as Israel, largely as a result of external conditions. The sector continues to have strong advantages in its experience as a subcontractor for Israeli firms and some of the technology and information transfer that takes place under these relationships (albeit limited), as well as some high quality producers who are able to creatively overcome obstacles.

Opportunities do exist in selected markets, including the domestic market, should firms be able to lower their costs of production and improve quality and design. There does appear to be some bias against domestic products (which obtain a lower price even if they are of comparable quality as imports) in the domestic market, which will take strong marketing initiatives to overcome.

Unfortunately, the loss of relationships with Israeli producers means that firms also need to readily establish or strengthen relationships with other potential markets and, ultimately, overcome the physical and political barriers that raise costs and restrict exports.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Accumulative experience in producing for international brands</li> <li>• High quality of local production</li> <li>• Competitive prices</li> <li>• Experience in subcontracting</li> <li>• Supply chain management</li> <li>• Availability of labor</li> </ul>	<ul style="list-style-type: none"> <li>• Horizontal structure of the industry</li> <li>• Firms carry out only the lowest value-added parts of the production process</li> <li>• The current external border regime, represents a high obstacle for exporting finished goods and importing raw materials</li> <li>• Lack of marketing sophistication</li> <li>• Lack of skills in quality management</li> <li>• Lack of skills in fashion design</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Development of quality and design norms</li> <li>• Upgrading the production and managerial capacity to meet the upper segments' requirements</li> <li>• Investment to promote exports to world markets</li> <li>• Free trade agreements with the Arab countries and others.</li> </ul>	<ul style="list-style-type: none"> <li>• Increased competition from low-priced products from the Far East, particularly China,</li> <li>• Unreliable and costly inbound and outbound transportation</li> <li>• Logistics due to border control and current political instability</li> <li>• Internal demand is not enough to balance the supply and employment needs</li> </ul>

## 6. Recommendations and interventions

To raise competitiveness in the domestic market, the Palestinian Garment sector will need to focus on maintaining and improving quality and the perception of high quality among consumers, while managing costs. These steps will also be essential for the longer term emphasis on exports. Larger firms appear to have more success in this industry, suggesting that some reorganization of the industry structure may be required to increase competitiveness. Improvements in marketing and design.

### Improving products and techniques

Product development:

- Increasing design varieties is seen as an opportunity for Palestinian producers to improve their market share;
- Improving the quality and design of garments.

### Improving technological base

Many participants in the survey cited quality problems along with high cost of production as the major shortcomings of the local producers. In part this may be attributed to the aging technological base of Palestinian garment manufacturers. The main barrier to replacing aging equipment is the lack of financial resources.

While the majority of businesses use the owner's capital to start a business, additional funds are needed to keep up with the latest technological developments in the textile and garment industry. It is crucial for the survival of the industry that the Palestinian garment manufacturers have access to financing.

## Market Information

### Internal markets

- Identify the preferences of customers in different market segments and improve positioning of products accordingly. In the case of garments, it is necessary to determine what attributes customers value the most, and focus on improving those attributes, while phasing out spending on the attributes that are meaningless to the customer.
- PalTrade should consider commissioning a market research study to determine consumer preferences in order to aid local garment producers in making modifications to their fabrics, designs, and colors to make their products more competitive.
- Other forms of value chain cooperation amongst producers, distributors, and retailers should be encouraged and implemented. For example the retailers can collect information from the customers and pass it on to the producers. Based on that information the producers will be able to adapt their products to make them more desirable to the customers.

- Furthermore, groups of producers can cooperate by pooling purchases of raw materials to obtain volume discounts.

## External markets

- There are a variety of market opportunities within and outside of the West Bank, but many producers are uninformed about what these are and how they might access them. Improved information on both WBG and external markets is needed.
- Information on trade agreements, conditions of international trade, and export market trends would assist producers to take advantage of opportunities to access foreign markets.
- Information on Israeli and PNA standards and requirements is an often cited hurdle for importing raw materials and exporting finished products. Regular clarification on requirements should be published:
- The development of facilitated import/export relationships outside of West Bank would support Palestinian producers to overcome some existing challenges. These could be with Israeli partners or partners in other countries of the Middle East region.

## Marketing

Once market demand is better understood, marketing initiatives can be devised that are tailored to meet demand. Marketing efforts to promote locally produced garments must only be launched for the garments that are competitive with imports in terms of quality, design, and overall value, however. Promoting uncompetitive or inferior locally produced garments will only damage the credibility of the local producers.

- Marketing campaigns tailored to specific markets are needed.
- Buy local campaigns, such as “Our Product” have been successful in the past and could be linked with a marketing campaign focusing on quality.
- Commercial exhibitions highlighting Palestinian-made goods should be located in the different regions of the West Bank to overcome transportation challenges.
- Developing motivational incentives for retailers to promote domestic products.

## Advocacy

Imports are thought to be underreported by as much as 90 percent, both depriving the PA of tariff revenue and flooding the domestic market with unregulated imports.

The PA is reportedly undertaking a new approach to monitoring imports with the goal of tracking 100 percent of value by the end of 2008.

- Advocate for improved tracking and valuation of imports, supporting the PA to achieve this goal;
- Advocate for the development of a policy framework governing quality testing for garment imports.

Furthermore, the PA continues to bid out procurement for police, army, and other government uniforms to Arab countries in the region, while domestic producers are capable of producing these garments and in fact already engaged in producing uniforms for a wide variety of national and international institutions.

- Advocate for revised regulations regarding government uniform procurement.

## Development and strengthening of support institutions

Should the domestic garment sector see success in improve its position, there will be a need for a larger number of vocational schools and training centers to adequately prepare students for the industry. The Fashion and Textile Institute in Beit Sahour and vocational training centers run by UNRWA, and other charitable organizations and NGOs do train people. However, the capacity of these institutions is limited. Therefore, there are shortages of specialists in fashion design, operation and maintenance of equipment, quality control, as well as marketing and sales professionals and managers experienced in managing large-scale production operations.

There is a clear need for an industry support and resource center that among other things provides its members with marketing support, including identifying potential markets, keeping up-to-date with the industry developments in international markets and helping its members take advantage of agreements signed with the U.S. and the E.U.

## Sectoral Information

As this study illustrates, information about the garment sector remains incomplete and challenging to obtain. Sector associations have good access to firm-level information—and are often able to obtain high quality data on sales—yet this information is not widely distributed or made available to other institutions.

- Conduct a needs assessment of the PCBS to improve capacity to gather and disseminate economic data;
- Develop a data support unit to improve cooperation among sector associations, relevant institutions and the PCBS.
- Development of a product-level consumption survey to identify opportunities in cost/positioning/marketing/ etc. and drive company level decisions;
- Market Share Assessment for the product level;
- Identification and estimates of costs of regulatory constraints to the garment sector.
- Improvements throughout the system will assist firms to provide more consistent quality, minimizing waste and ensuring proper handling from farm to consumer.

### Additional Research Needs

Broad-based recommendations are possible for the sub-sector as a whole, but linking specific activities to increases in domestic market share will require target research at the product level.

### Supporting Institutions

Institution	Contact information
Ministry of National Economy	Website: <a href="http://www.mne.gov.ps">www.mne.gov.ps</a>
Palestinian Central Bureau of Statistics (PCBS)	Website: <a href="http://www.pcbs.gov.ps/">http://www.pcbs.gov.ps/</a>
Palestinian Federation of Industries (PFI)	Ramallah: P.O. Box 574, Ramallah, Palestine; E-mail: <a href="mailto:info@pfi.ps">info@pfi.ps</a> ; Website: <a href="http://www.pfi.ps">http://www.pfi.ps</a>
Union of Palestinian Textile Industry. (UPTI).	Beit Jala, Palestine; Tel 02 2775211, Fax+ 02 2775211; E-mail: <a href="mailto:paltex@p-ol.com">paltex@p-ol.com</a> ;
Palestine Standards Institution (PSI)	Website: <a href="http://www.psi.gov.ps">http://www.psi.gov.ps</a>
Palestine Trade Center (Paltrade)	Head Quarters (Ramallah Office): AlWatanieh Towers Bldg., 5th floor, Al-Bireh; P.O. BOX 883, Ramallah, Palestine; Tel: +970 (or 972) 2-2408383; Fax: +970 (or 972) 2-2408370 Website: <a href="http://www.paltrade.org">www.paltrade.org</a>

A large, light gray decorative graphic consisting of intricate, swirling floral and scrollwork patterns, positioned behind the PalTrade logo.

**PalTrade**  
The Palestine Trade Center

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Market Share Assessment:

# Furniture Manufacturing

# PalTrade

The Palestine Trade Center

## Market Share Assessment: Furniture Manufacturing

### 1. Executive summary

The Market Share Assessment tool was developed by the Palestine Trade Center (Paltrade) in early 2008 with support from the USAID-funded Palestine Enterprise Development (PED) program implemented by DAI. This tool aims to address the lack of information on enterprises at the sub-sector level in the West Bank and Gaza, using a combination of existing data from official sources and sector associations, and primary research conducted through enterprise-level surveys. The recommendations developed here are oriented to assist firms to improve their market share in the domestic market and to support increased exports in the longer term.

The furniture industry evolved in Palestine almost 55 years ago and has grown to become an important productive sector. However, in recent years it has undergone significant changes as its main locus of production—the Gaza Strip, with 80 percent of producers—has been closed to incoming and outgoing shipments. As a result, nearly all Gaza-based firms have closed and West Bank producers have taken on a new importance.

Many West Bank firms are much smaller than the more well established Gaza firms were, so the variety and capacity of production has decreased.



Palestinian dining furniture

These smaller firms face challenges in upgrading their technology and competing at the lower end of the market with imports from China, Turkey and Malaysia. The larger firms in the West Bank have had more success in accessing the high end of the domestic market where consumers are interested in, and able to support the production of, high quality products that are meant to last.

However, as with many industries in Palestine, the furniture sector will ultimately need to take an export orientation due to the small size of the domestic market. This will require upgrading in the area of design, quality, efficiency of production and capacity of producing standard products, the development of new relationships with importers in foreign markets, and the ability to understand and meet international standards. Support to build capacity in this direction can begin even within the existing domestic market orientation.



Wooden kitchen furniture

## 2. Methodology

This study makes use of unaltered data from the Palestinian Central Bureau of Statistics (PCBS) and Ministry of National Economy (MoNE), and sector association estimates. While this information is the most complete in terms of time series and sector and sub-sector level data, inaccurate and incomplete reporting suggests that official statistics underestimate the true value of annual sales.

To supplement official information, a representative sample of producers in each sub-sector is used to obtain information on output, regional trends, and perceptions of challenges and opportunities. Due to the closure of many Gaza based firms this analysis focuses on the West Bank with a survey of 42 producers, 10 retailers, and 10 importers/distributors. These two short surveys provide additional information on distribution, marketing and consumer preferences.

The average production levels of the producers surveyed represent approximately 4 percent of 2006 output and 2.5 percent of employees according to PCBS data for West Bank and Gaza.

## 3. Overview of the Furniture sub-sector

Prior to the closures in Gaza following the political rise of Hamas, the Palestinian furniture sector was highly concentrated in that region.

As recently as 2005 it was estimated that 80% of furniture production was produced by Gaza based manufacturers.<sup>1</sup> In more recent years the political situation and restrictions on inflows of raw materials and outflows of finished products has caused most of the manufacturing companies in Gaza to close, either temporarily or permanently.

The Palestinian Wood Industries Union (PWIU) is still located in Gaza and while firms would like to initiate a branch in the West Bank, the small size and capacity of most West Bank producers has limited their ability to support such a development.

The Paltrade survey of 42 producers found that annual domestic production of furniture is between US\$ 35 and 36 million in 2008, an estimate confirmed by the PWIU. This number is contrasted with 2006 PCBS data, which was closer to US\$83 million. In that year, approximately US\$66 million was produced in Gaza and US\$16 million in the West Bank. As Gaza production has effectively stopped, West Bank producers have increased production for both the domestic and Israeli markets.

The furniture manufacturing sub-sector analyzed in PCBS data is defined by the International Standard Industrial Classification (ISIC) code Rev. 3.1 3610, and includes the following categories of products produced in Palestine:

- Manufacture of furniture of all kinds (household, office, hotel, restaurant and institutional furniture; fixtures; bedsprings and mattresses), of any material (wood, osier, bamboo, base metal, glass, leather, plastics, etc., other than of stone, concrete or ceramics)
- Manufacture of the different kinds of mattresses: mattresses fitted with springs or stuffed or internally fitted with a supporting material; uncovered cellular rubber or plastics mattresses
- Manufacture of cabinets for sewing machines, televisions and stereos.
- Wooden furniture is the largest sub-sector, comprising 92 percent of all furniture manufacturing in 2005.

The geographic distribution of furniture producers surveyed, by major West Bank cities, includes Hebron (34 percent), Jenin (21 percent), Nablus (17 percent), Tulkarm (7 percent) and Qalqilia (7 percent). The majority of firms were started before 2000 and they function with an average of three full time employees (ranging from 1 to 18) and anywhere from 12 to 3,000 square meters of operation space. At least six larger firms—based on number of employees—exist in the West Bank but they were not included in this survey.

29 percent of raw materials are supplied by the local market. 37 percent come from Israel, 22 percent from China and 12 percent from other countries, including Eastern Europe.

While the domestic furniture industry has strengthened its market share in recent years, and some retailers report reducing their imports from Israel, domestic producers continue to face competition from Israeli products as well as the US, countries in Europe and China and Indonesia/Malaysia in Southeast Asia. In the mass produced furniture sector West Bank firms cannot compete with imports on price due to high costs of production, but there is evidence that some segments of the Palestinian consumer market continue to prefer custom made solid wood products due to their high quality and longevity.

## 4. Furniture sector market analysis

The majority of furniture has historically been produced for the local market—with the vast majority of goods—76 percent—sold in Gaza. From 2000-2005 nearly 77 percent of sales were to the local market, and this percentage increased to 86 percent by 2008 in the West Bank.

According to a 2005 Paltrade report on the Palestinian Furniture Sector (which focused exclusively on producers in Gaza) companies exporting at the time were accessing markets in Israel, the United Arab Emirates, and Saudi Arabia. The United Arab Emirates is a regional hub for the furniture industry while Saudi Arabia was undergoing a housing boom so both of these markets offered, and continue to offer a great deal of opportunity for Palestinian producers. Both countries, as well as secondary markets in the EU, U.S., Qatar, Bahrain and Algeria offer duty free access. None of the companies in the 2008 survey reported sales to any external markets other than Israel.

The dynamic market share analysis graphs the performance of sectors in the domestic market at the two digit ISIC code level over the period of 2000 to 2005, the last year for which trade data is available from PCBS. This analysis is a DAJ adaptation of the Boston Matrix that is used to identify potential in trade markets and review sector trends while holding the broader economic

performance constant. In this case, the analysis has been adapted to compare the recent performance of domestic sectors within the WBG market.

The value of sales is represented by the size of the bubbles while the position of the bubbles reflects the growth rate of the relative market size on the X axis and the growth rate of market share on the Y axis. Bubbles in the top right-hand corner are considered high performers that are gaining market share in a growing Palestinian market. Publishing, printing and reproduction is the sector in this quadrant with the highest growth rate in both market share and size, followed by rubber and plastic—in both cases an increasing share of domestic processors is meeting growing demand. The furniture sector is also a “rising star” in this scenario, with slightly positive growth in both market size and share.

In the lower right-hand corner the market is growing but domestic industries are losing market share. Basic metals is the sector for which there is growing domestic demand that is not currently being met by domestic firms, but for which there is clear potential.

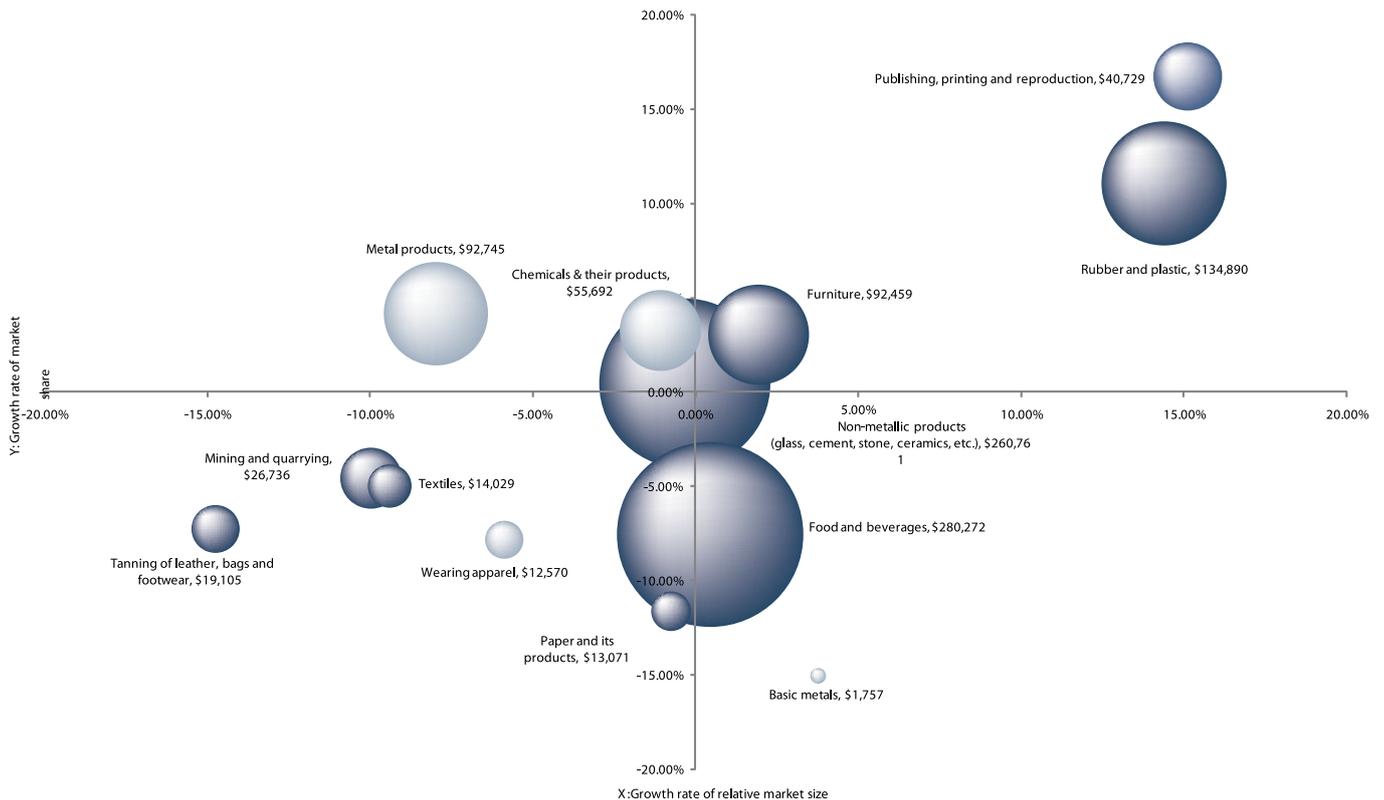
In the top left quadrant the market size for the selected manufacturing sectors is growing negatively relative to the market size as a whole, although domestic firms are gaining market share. Chemicals and metal products fall into this category.

Finally, in the lower left hand quadrant are the products that face the most challenging scenario in the WBG market, as they are losing market share in a declining market. Textiles, apparel, and tanning of leather products are in this category.

### Trends in Domestic Market Size and Share Trends Over the Past Five Years

Looking at the domestic furniture market over time (using PCBS data) we see a sharp drop in market share following the beginning of the second Intifada in 2000. Domestic market share fell from 74 percent in 2000 to below 50 percent in 2001. At that time the market size increased due to increased imports from Israel, but domestic products faced blockages and delays in transportation around WBG. In 2002 the market size shrank as a result of the economic contraction following Israeli incursions and imports dropped dramatically from US\$69 million in 2001 to US\$6.5 million in 2002.

Figure 4-1 Dynamic Market Share of Palestinian Manufacturing, 2000-2005



Domestic sales remained more or less even during this time, at between US\$50 and US\$ 60 million. While market size has varied each year since, market share has remained somewhat stable at between 80 and 90 percent ( according to the PWIU market share is estimated to be 60 - 70 percent as the value of the imported products is under estimated by customs). The domestic market in 2005 was US\$107 million.

In line with the US\$10 million contraction in domestic sales in 2001, the number of employees that year fell by more than 900. By 2002 however employment in the industry began to rise, reaching a high of 6,253 in 2005. 2006 saw a fall back to 5,333.

While employment numbers per firm range between 1 and 18 employees they average 3 full time employees and 3-5 part time workers. The number of firms producing furniture has been variable each year, ranging from 1850 to 2075, although a steady decline can be seen from 2004-2006.

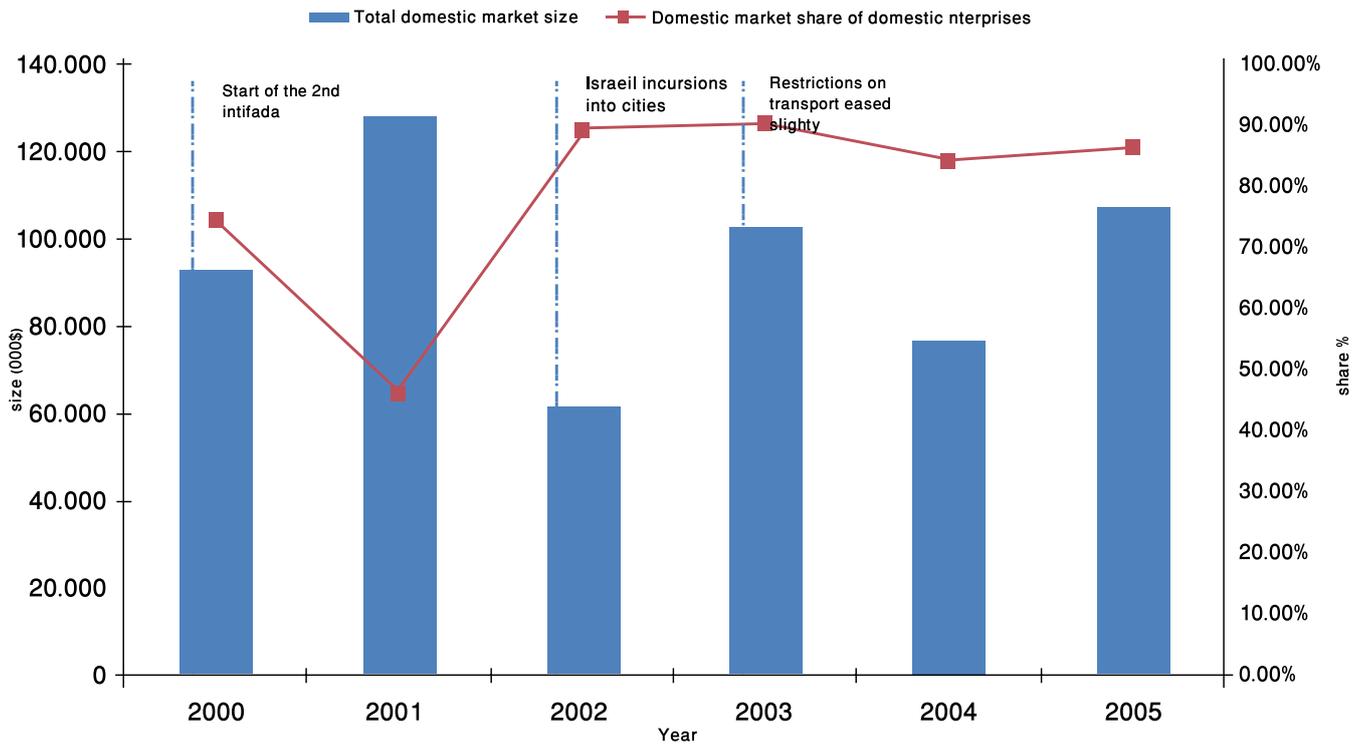
The maximum capacity of the largest company surveyed is approximately US\$200,000 per month, but this number is not representative of the industry as a whole. The next largest firm has a capacity of US\$14,000 and the bulk of firms produce closer to US\$5,000 worth of furniture each month.

While these figures reflect maximum capacity, current production levels are somewhat lower. Survey results estimate that current capacity used is correlated with firm size. Those firms producing below US\$5,000 are producing at less than 40 percent while the largest firm is producing at 90 percent capacity. On average, the 36 firms for which data is available are functioning at 68 percent capacity.

### Geographic Distinctions in Production and Sales

Regional trends in furniture sales within the West Bank and Gaza have been dramatically impacted by political conditions and transportation difficulties. 70 percent of the surveyed companies indicated that their target market today is exclusively the West Bank. Furthermore, 88 percent of all producers sell only to the local market, with an additional 3 percent exporting to Israel only and 11 percent selling to both the domestic and foreign markets. Firms exporting to Israel are typically located in the North due to proximity to the green line and historic trade relationships. 84 percent of sampled firms believe that the local market offers higher profit margins than export markets.

**Figure 4-2: Trends in Domestic Market Size and Share of Furniture, 2000–2005**



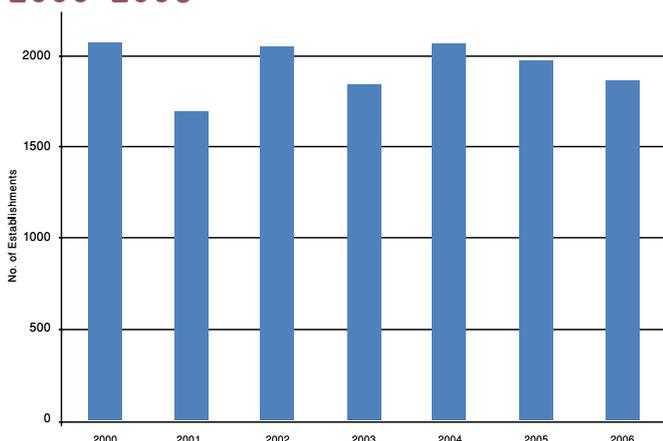
Border restrictions and closings have effectively eliminated furniture sales to Gaza, and sales to Israel have also fallen off dramatically since 2000. Sales to South West Bank have grown most dramatically in recent years such that each region of the West Bank (North, Middle, and South) receive about a third of total sales. In 2008 importers reported the middle of the West Bank as receiving about 86 percent of imports, up from 74 percent in 2000.

Imports to the furniture industry originate in different regions base on their type. Wood comes from Eastern and Western Europe, Africa, Canada and the United States while paints, stains, and accessories come from Italy, Germany and China, and textiles often come from Turkey.

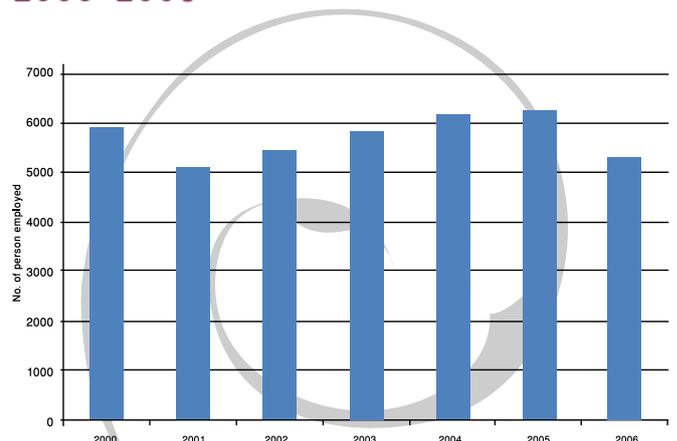
It is rare that West Bank firms import these products directly however as Israeli restrictions on direct imports raise transaction costs significantly. As a result, nearly all raw materials are imported through Israeli intermediaries which adds some cost but is less expensive than the direct route.

45 percent of producers reported that financial difficulties (access to trade finance) are also a key obstacle. In particular, there are no large firms that can import in quantity and store for domestic firms, improving rates and ensuring consistent supply. 33 percent reported that Palestinian National Authority (PNA) regulations are the source of their difficulties while other internal and external transportation restrictions resulting from the Israeli occupation are also of importance.

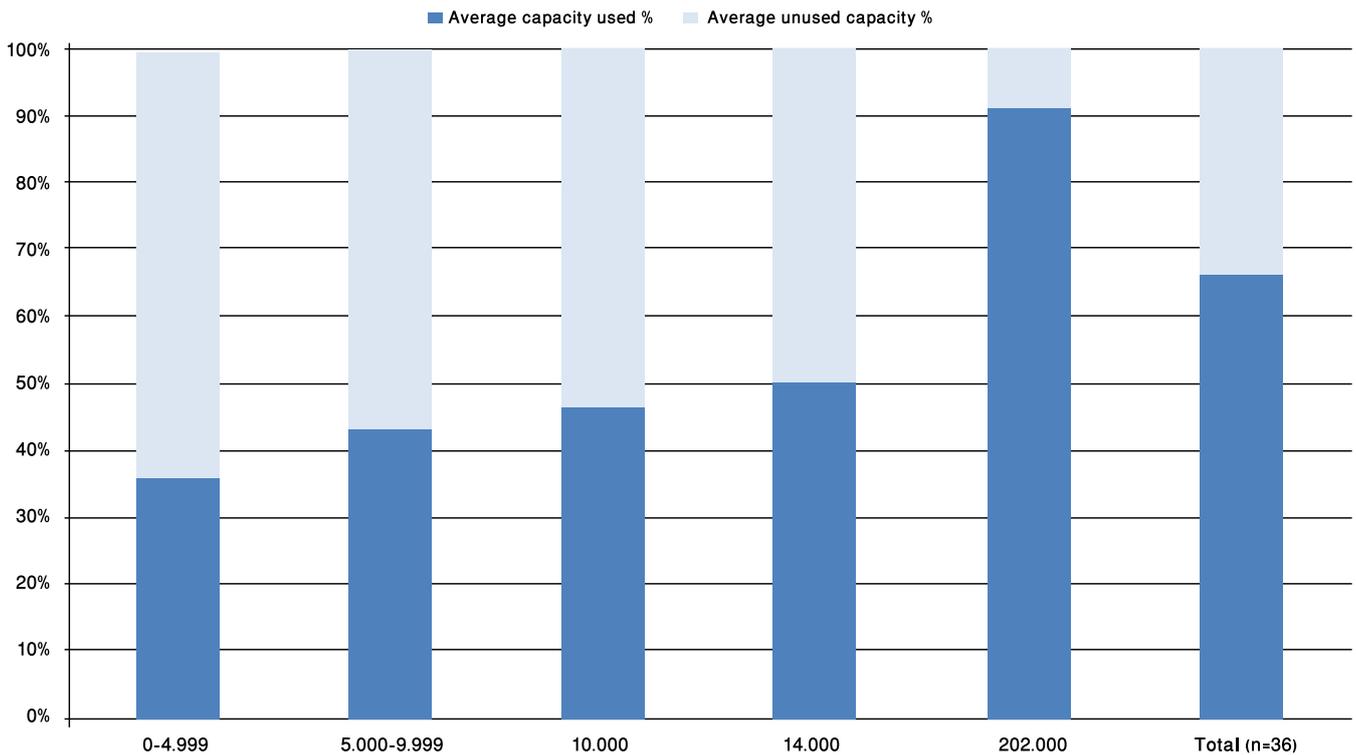
**Figure 4-3 Trends in Establishments, 2000–2006**



**Figure 4-4 Trends in Employment, 2000–2006**



**Figure 4-5: Capacity Utilization of Sampled Domestic Firms**



Limitations on quantities of imported raw materials are another challenge for producers. 36 percent reported difficulties keeping up with changes in import standards required by Israelis while 23 percent reported that importer control over raw materials is a hurdle.

## 5. Competitive sub-sector analysis

### Differentiation of Products: Price/Quality

Price, quality certification and experience were identified by producers as the most important factors determining competitiveness. This may differ somewhat based on the quality of the products and the intended market—higher end goods are ranked on design, quality, and price in that order.

Among importers—who typically also act as distributors and/or producers—price was ranked as the most important factor for local goods, followed by quality and model/design. Imported products appear to be judged by a different set of criteria, with brand ranked as the most important factor, followed by finishing, previous experience, and quality.

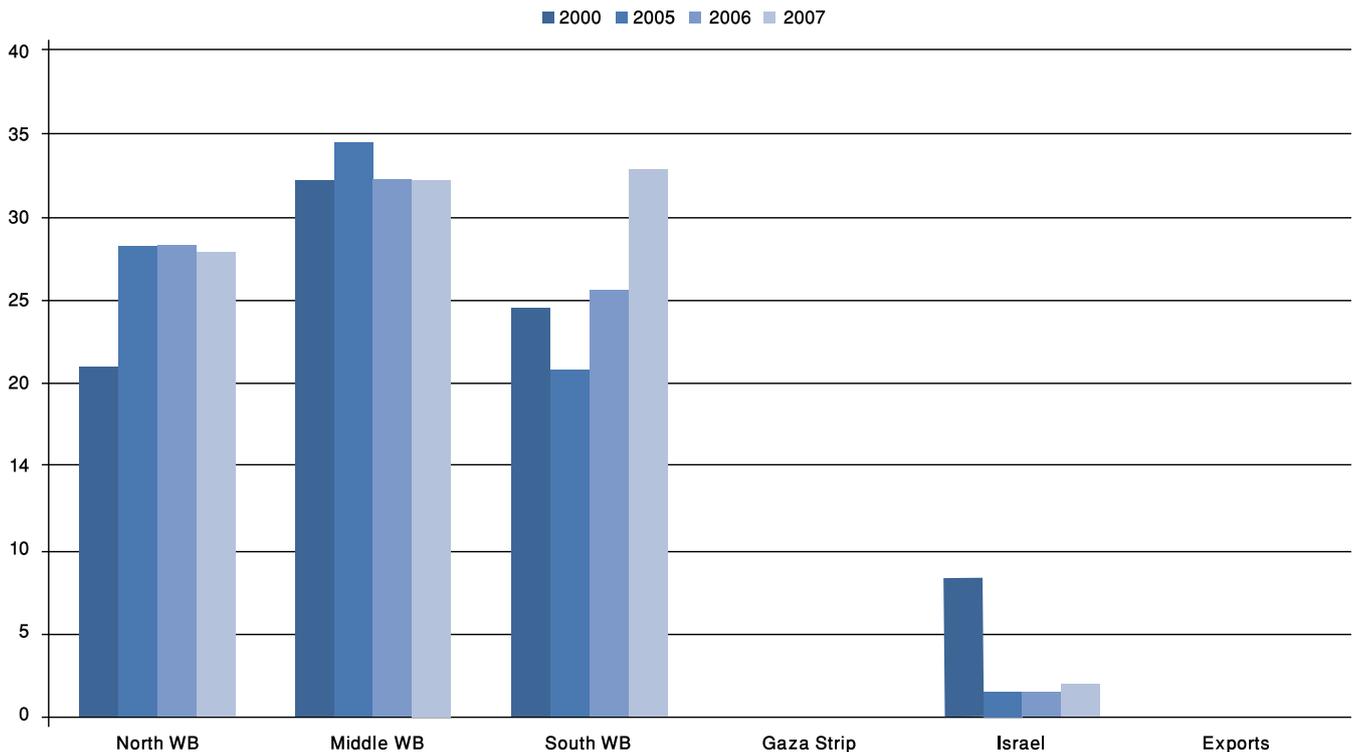
Only one out of the 42 firms surveyed had their own quality management department, with two employees, while no firm had quality certification in the furniture sector. There are a series of quality standards and regulations developed by the PSI for kitchen furniture, wood materials and wood products, plain plywood and flexible molded polyurethane foam for seat cushioning. However, these quality specifications are not applied in the local market or many regional markets.

More than 40 percent of furniture companies in the West Bank are more than 15 years old, 40 percent are between 11-15 years old, and 6 percent are between 6-10 years old. Due to the high cost of primary machinery most firms also purchase it used from Israel and Italy. As a result, nearly 80 percent of primary machinery is more than 10 years old and 40 percent is more than 20 years old. Only 14 percent of firms have primary machines that have been purchased or upgraded in the last five years.

### Differentiation of Products: Marketing Strategies

According to the 2008 producer survey, marketing plans are not the norm in the West Bank furniture sector—only 26 percent of firms surveyed have developed marketing plans of any kind.

Figure 4-6: Geographic distribution of sales



Furthermore, 78 percent of the sampled firms do not offer incentives to distributors or agents to promote their goods. Most producers do not report targeting any specific income level although larger firms tend to target middle and higher income groups able to pay for top quality products.

Local magazines and other publications may be used for advertising, but even larger firms do not spend a great deal of money in this area. In some cases word of mouth is enough to bring in a sufficient number of new customers. Retailers are the most important distribution channel for furniture producers.

Firms find trade exhibitions and marketing campaigns organized by groups such as Paltrade to be very beneficial to their business. The most important time of year is the summer season, according to 75 percent of respondents, when many newly married couples buy new furniture for their homes or move.

### Retailer Perceptions

A short non-representative survey of furniture retailers in the West Bank was conducted to obtain additional perceptions on the competitive constraints and opportunities for local processors. These furniture retailers are primarily located in Nablus, followed by Ramallah and Al-Bireh.

Retail businesses are typically family-owned and operated with an average of four employees and 513 square meters in size. Marketing expenditures are low, averaging \$1,750 per year.

Many retailers prioritize price as the main factor affecting purchasing decisions, followed by quality and then model and design. There appears to be a preference for imported goods over local products, with 6 out of 10 retailers suggesting that Palestinian consumers prefer imported goods. 80 percent of retailers purchase from import distributors at an average annual value of \$32,400 while 63 percent purchase from local producers at an average annual value of \$29,400. However, there are some reports that retailers may claim products are imported from Israel in order to obtain a higher value, even if the products originated at home.

As with producers there is an important distinction to be made among those retailers selling to the higher versus lower ends of the market. At the high end, design and quality lead in importance to customers and many prefer local goods that are well crafted and meant to last.

Nearly two-thirds of retailers believe that buy local promotional campaigns make a difference in consumer choice and that trade shows and exhibitions are effective in raising sales.

Lower prices, higher quality, and more diversity in design are recommended to increase sales of local furniture.

### Strengths, Weaknesses, Opportunities, and Threats (SWOT)

Information on the strengths, weaknesses, opportunities, and threats in the furniture sector was gathered through the Paltrade surveys and other resource materials, including Paltrade's 2006 briefing paper on the Palestinian Furniture Sector and a broader 2005 strategy document.

The furniture industry in the West Bank is competitive in the domestic market, maintaining close to 90 percent of market share. This is due in part to a high skill level among furniture makers and comparatively low labor costs. There is a great deal of opportunity to strengthen domestic producers' position with a continued focus on quality and design however and, in the longer term there are a number of opportunities in regional export markets as well, should domestic producers be able to meet them.

However, the challenges to the industry are significant. Having lost a major market through the closure of Gaza in recent year, and facing high costs for raw materials and transportation, this sector is vulnerable to political instability. The small size of most firms allows domestic producers flexible in terms of shifting design as needed but limits benefits from economies of scale and modernization, and precludes a mass production strategy.

## 6. Recommendations and interventions

To raise competitiveness in the domestic market, the Palestinian furniture sector will need to focus on maintaining and improving quality and the perception of high quality among consumers, while managing costs. There are a number of steps along the path to this outcome, highlighted below.

### Improving products and techniques

- Increasing design varieties;
- Introducing new products such as outdoor furniture and furniture accessories;
- Implementing new technologies such as veneering, golden paints, and engraving.

## Marketing

The small size of most furniture producers and retailers leaves businesses with few resources to devote to improving business systems. Therefore, the Palestine Wood Industries Union could play an important role in centralizing many marketing and product development initiatives, including conducting and disseminating market research and developing industry-wide strategies.

Marketing: retailers believe that there is a perception that imported products are higher quality than those produced domestically. Meanwhile, domestic producers are not actively engaged in marketing their goods to gain brand recognition and improve perceptions;

Buy local campaigns, such as "Our Product" have been successful in the past and should be linked with a marketing campaign focusing on quality.

Commercial exhibitions highlighting Palestinian-made goods should be located in the different regions of the West Bank to overcome transportation challenges.

Visiting and participating in international exhibitions will assist firms to learn more about what foreign markets are looking for and professionalize their approaches. This has proven challenging in the past due to Israel-imposed restrictions on shipping samples to exhibition locations.

Focusing on the Israeli market as an important potential market

### Market Information

There are a variety of market opportunities within and outside of the West Bank, but many producers are uninformed about what these are and how they might access them. Improved information on both WBG and external markets is needed.

Information on trade agreements, conditions of international trade, and export market trends would assist producers to take advantage of opportunities to access foreign markets.

Information on Israeli and PNA standards and requirements is an often cited hurdle for importing raw materials and exporting finished products. Regular clarification on what is required and facilitation in meeting reporting and other requirements is needed.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• High carpentry workmanship skills</li> <li>• High quality production</li> <li>• Availability of raw materials</li> <li>• Availability of after-sales services in local market</li> <li>• Good prices for good quality products</li> </ul>	<ul style="list-style-type: none"> <li>• Industry association is located in Gaza and most of the board members are from Gaza</li> <li>• Lack of professional specialized design skills</li> <li>• Lack of use of up to date technology</li> <li>• Lack of skill in finishing</li> <li>• Limited variety</li> <li>• Lack of market information</li> <li>• High transportation costs</li> <li>• Limited use of marketing plans Costly and complex export logistics</li> <li>• Poorly developed management strategies</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Industry association tendency to expand in the West Bank</li> <li>• Introduction and upgrading of new techniques and technologies</li> <li>• Introduction of new products</li> <li>• Subcontracting /partnership deals</li> <li>• Exploitation of favorable trade agreements</li> <li>• Existing market opportunities in the ME region</li> <li>• Contract furniture</li> <li>• Financing programs through banks and other lending institutions</li> </ul>	<ul style="list-style-type: none"> <li>• Political and economic instability</li> <li>• High cost of supplies</li> <li>• Low cost competition from external markets</li> <li>• Unreliable and costly out-bound logistics</li> <li>• Restrictions on movement due to the Israeli occupation</li> <li>• Difficulties in direct imports of major raw materials</li> </ul>

The development of facilitated import/export relationships outside of West Bank would support Palestinian producers to overcome some existing challenges.

## Finance

Access to capital, operating, and trade financing facilities due to difficult requirements of local financial institutions and reluctance of private investors.

## Sectoral Information

As this study illustrates, information about the furniture sector remains incomplete and challenging to obtain. In particular with the closure of Gaza and many furniture producers there, numbers of furniture producers are scanty at best.

Conduct a needs assessment of the PCBS to improve capacity to gather and disseminate economic data;

Develop a data support unit to improve cooperation among sector associations, relevant institutions and the PCBS.

## Professional Trainings

- Professional trainings in certain fields are essential to improve the furniture industry in Palestine such as:
  - Furniture Design
  - Packaging for transport
  - Specifications & finishing for export purposes
  - Professional painting of furniture
  - Costing
  - Export procedures
  - Managerial skills
  - Marketing

The technical trainings should be in coordination with the vocational training centers and universities in the West Bank (such as Polytechnic University & hijawi applied College—Al Najah University )as TOT to create an internal sustainable capacities which will help the industry in the long run

## Additional Research Needs

Broad-based recommendations are possible for the sector as a whole, but linking specific activities to increases in domestic market share will require target research at the product level.

Development of a product-level consumption survey to identify opportunities in cost/positioning/marketing/etc. and drive company level decisions;

Market Share Assessment integrated with a value chain study for the product level, with a focus on the different issues faced by producers of higher versus lower end products;

Identification and estimates of costs of regulatory constraints to the furniture sector.

Conducting a study by Paltrade on potential markets for the Palestinian furniture products

## Supporting Institutions

Institution	Contact information
Ministry of National Economy	Website: <a href="http://www.mne.gov.ps">www.mne.gov.ps</a>
Palestinian Central Bureau of Statistics (PCBS)	Website: <a href="http://www.pcbs.gov.ps/">http://www.pcbs.gov.ps/</a>
Palestinian Federation of Industries (PFI)	Ramallah: P.O. Box 574, Ramallah, Palestine; E-mail: <a href="mailto:info@pfi.ps">info@pfi.ps</a> ; Website: <a href="http://www.pfi.ps">http://www.pfi.ps</a>
Palestinian Wood Industries Union (PWIU)	El Remal, Gaza, Palestine; Tel+ 970 8 283 6188, Fax+ 970 8 283 6199; E-mail: <a href="mailto:info@palfurniture.ps">info@palfurniture.ps</a> ; Website: <a href="http://www.palfurniture.ps">www.palfurniture.ps</a>
Palestine Standards Institution (PSI)	Website: <a href="http://www.psi.gov.ps">http://www.psi.gov.ps</a>
Palestine Trade Center (Paltrade)	Head Quarters (Ramallah Office): AlWatanieh Towers Bldg., 5th floor, Al-Bireh; P.O. BOX 883, Ramallah, Palestine; Tel: +970 (or 972) 2-2408383; Fax: +970 (or 972) 2-2408370 Website: <a href="http://www.paltrade.org">www.paltrade.org</a>

A large, light gray decorative graphic consisting of intricate, swirling floral and scrollwork patterns, positioned behind the PalTrade logo and extending across the middle of the page.

**PalTrade**  
The Palestine Trade Center

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Market Share Assessment:

# Printing Presses

# PalTrade

The Palestine Trade Center

## Market Share Assessment: Printing Presses

### Executive summary

The Market Share Assessment tool was developed by the Palestine Trade Center (Paltrade) in early 2008 with support from the USAID-funded Palestine Enterprise Development (PED) program implemented by DAI. This tool aims to address the lack of information on enterprises at the sub-sector level in the West Bank and Gaza, using a combination of existing data from official sources and sector associations, and primary research conducted through enterprise-level surveys. The recommendations developed here are oriented to assist firms to improve their market share in the domestic market and to support increased exports in the longer term.

The printing sector in the West Bank is nearly 80 years old and today is one of the highest growth manufacturing sectors in the domestic market, in terms of market size and share. Even in the face of considerable constraints resulting from occupation policies, the sector is gradually making improvements to quality and more dramatically expanding capacity to meet domestic printing needs.

In the selected products covered in this analysis, West Bank producers fill about 95 percent of market share and both market share and market size have been on a steady increase since 2002.



Even so, firms are operating at an average of 40 percent of capacity and therefore have room to expand.

The primary internal weakness of the printing sector is the lack of investment in new processes and technologies. Outdated mechanisms hold firms back from expanding into lucrative new products—currently supplied only through imports—and limit the modernization of the sector as a whole. Creative approaches are needed to support the sector in this area, through coordination with the Palestinian Federation of Paper Industry (PFPI) and other supporting institutions, to mitigate the burdens and risks faced by firms that have the capacity to take the lead.

## 2. Methodology

This study makes use of unaltered data from the Palestinian Central Bureau of Statistics (PCBS) and Ministry of National Economy (MoNE), and sector association estimates. While this information is the most complete in terms of time series and sector and sub-sector level data, inaccurate and incomplete reporting suggests that official statistics underestimate the true value of annual sales.

To supplement official information, a representative sample of producers in each sub-sector was used to obtain information on output, regional trends, and perceptions of challenges and opportunities. 13 processors in the West Bank responded to questions related to sales, employment, and industry challenges and opportunities. The average production value of these companies represents approximately 25 percent of the PCBS reported output for both West Bank and Gaza in 2006 and 25 percent of employees. Finally, short perception surveys of retailers and distributors provide information on distribution, marketing, and consumer perspectives.

## 3. Overview of the printing sector

The printing sector in the West Bank has been in existence for 70-80 years and was first located in Jerusalem and Nablus. The Palestinian Federation of Paper Industry (PFPI) was reactivated in late 2007 as the demand grew for an organization to represent the needs of this industry. The federation counts one third to one half of the estimated 300 printers (including many that are unregistered) located in the West Bank as members. The Paltrade survey covered 13 of these firms (approximately 10 percent of those that are registered).

The re-emergence of the PFPI corresponds to the gradual strengthening of this sector in recent years. Customers have begun to expect a much higher level of quality and service than in years past and forays into new technologies have enabled firms to meet these expectations to some degree. Furthermore, as Israeli-imposed restrictions on book and textbook imports from other Arabic countries have closed the WBG market to imports somewhat, domestic producers have built their

capacity to handle large tenders, frequently from government clients.

The group of products analyzed here is defined by the International Standard Industrial Classification (ISIC) code 2221, a category that includes the following:

“Printing of newspapers, magazines and other periodicals, books and brochures, music and music manuscripts, maps, atlases, posters, advertising catalogues, prospectuses and other printed advertising, postage stamps, taxation stamps, documents of title, cheques and other security papers, registers, albums, diaries, calendars, business forms and other commercial printed matter, personal stationery and other printed matter by letterpress, offset, photogravure, flexographic, screen printing and other printing presses, duplication machines, computer printers, embossers, photocopiers and thermo copiers.”<sup>1</sup> This category excludes the printing of labels and the publishing industry.

The geographic distribution of printing presses surveyed, by major West Bank city, includes Nablus (34 percent), Jenin (34 percent), where firms are typically quite small, and Ramallah and Al-Beirih (22 percent) where firms are typically larger. The average firm has 21 full time employees—although this number ranges greatly from one to more than 150.

Out of the 13 companies surveyed, about a third of them are individually owned, a third are registered as private limited liability companies and a third are registered as private unlimited liability companies. The majority of these firms are owner operated and owners are relatively highly educated with 11 out of 13 owners surveyed having a high school education or higher.

<sup>1</sup> United Nations Statistics Division Classifications Registry. Available from: <http://unstats.un.org/unsd/cr/registry/regcs.asp?Cl=17&Lg=1&Co=2221>.

<sup>2</sup> Small Enterprise Center—Palestine. Printing Presses in Palestine: Needs Assessment Report. May 2007.

# 4. Printing sector market analysis

The majority of printed materials—approximately 83 percent—are produced for the local market. According to the PFPI, exports are primarily printing services provided for Palestinians living in Israel. This industry does not perceive exports to be a major growth area in the near term but there is a great deal of demand for products and services not currently provided by domestic producers.

The dynamic market share analysis graphs the performance of sectors in the domestic market at the two digit ISIC code level over the period of 2000 to 2005. This analysis is a DAJ adaptation of the Boston Matrix that is used to identify potential in trade markets and review sector trends while holding the broader economic performance constant. In this case, the analysis has been adapted to compare the recent performance of domestic sectors within the WBG market.

The value of sales is represented by the size of the bubbles while the position of the bubbles reflects the growth rate of the relative market size on the

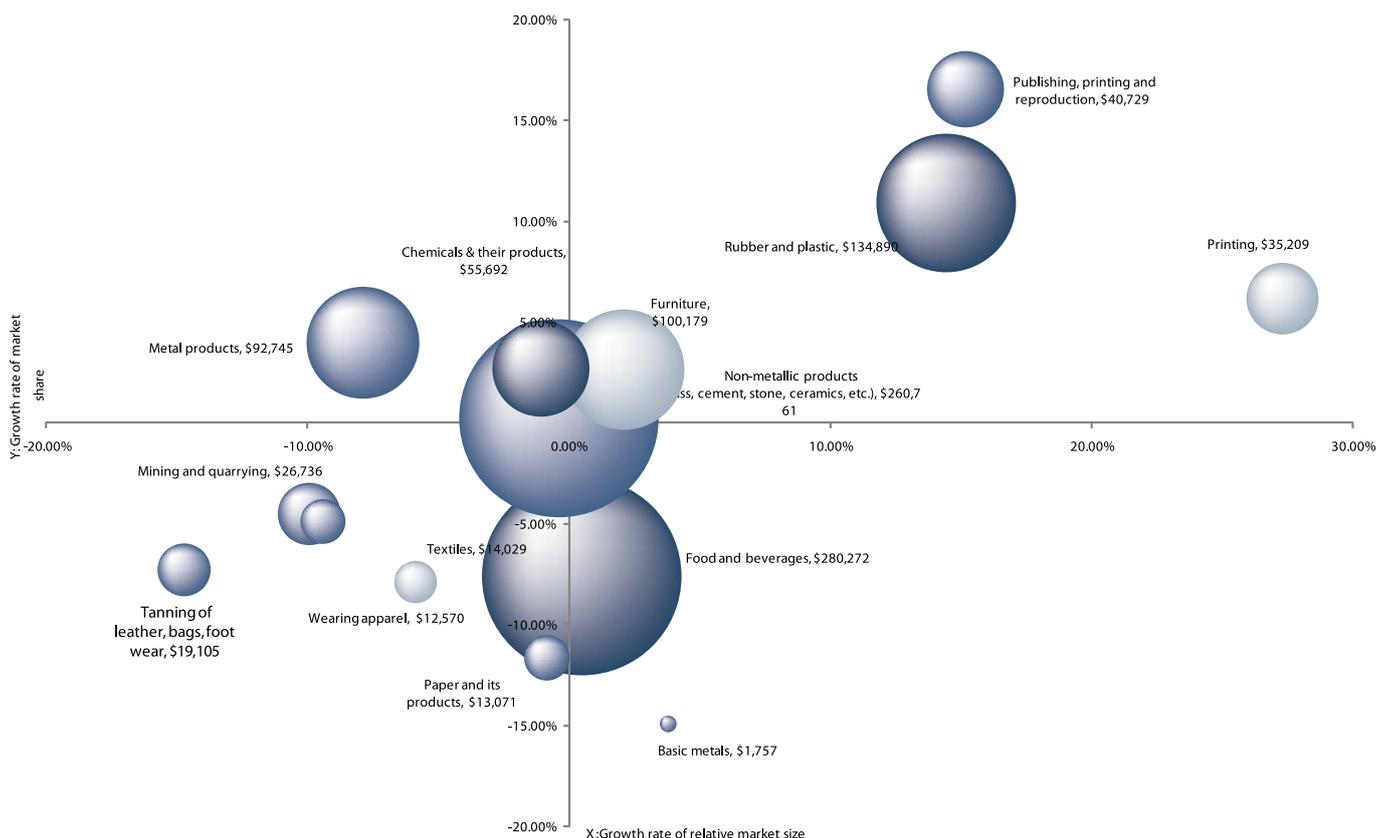
X axis and the growth rate of market share on the Y axis. Bubbles in the top right-hand corner are considered high performers that are gaining market share in a growing Palestinian market. Printing is the sub-sector in this quadrant with the fastest growth rate in market size—an increasing share of domestic processors is meeting the rapidly growing demand. Printing publishing and reproduction has the highest growth in market share in a growing market.

In the lower right-hand corner the market is growing but domestic industries are losing market share. Basic metals is the sector for which there is growing domestic demand that is not currently being met by domestic firms.

In the top left quadrant the market size for the selected manufacturing sectors is growing negatively relative to the market size as a whole, although domestic firms are gaining market share.

The bottom left quadrant reflects sectors that are facing the most challenging conditions, with loss in market share and slow or negative growth in relative market size.

Figure 4-1 Dynamic Market Share of Palestinian Manufacturing, 2000-2005





### Trends in Domestic Market Size and Share Trends Over the Past Four Years

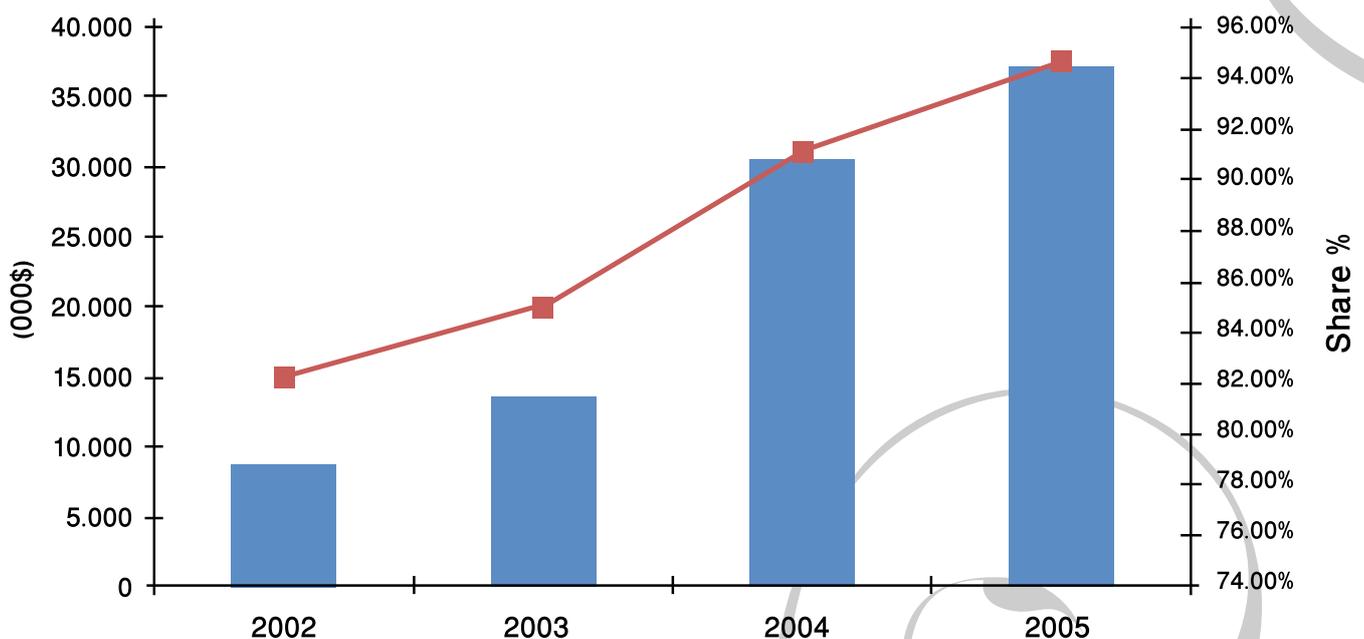
According to PCBS data, the domestic printing sector has seen steady growth since 2002 (data from 2000 and 2001 was not used in the market share analysis due to questions regarding 2001 data validity). Market share has climbed steadily from about 80 percent in 2002 to 95 percent in 2005 while the market size has grown from nearly US\$ 10 million in 2002 to about US\$ 37 million in 2005. However, as these numbers represent only a small portion of the total number of products commonly included in the category of printing.

For example, there are large number of imports from China in the areas of notepads and invitations, and printing used in packaging and labeling typically enters the market from Israel. If these categories were included the domestic market share would decrease somewhat.

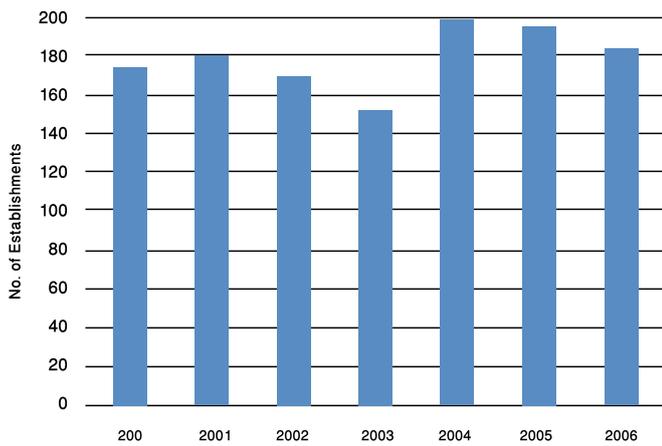
According to the available data of PCBS ( which was confirmed by PFPI) Palestinian printers are small to medium sized firms with an average of 4-5 employees per firm. The number of people employed in the printing sector has not grown in-line with the growth in market size or share however, suggesting that this technology-intensive industry is not a major source of job creation at this stage. In fact, even as market size and share has grown, employment has fallen off from a high of nearly 1,100 in 2004 to about 750 in 2006.

There was some contraction in the number of firms between 2001 and 2003 as well, suggesting that some printers went out of business while others increased the number of employees. Following the 2004 spike in the number of firms the trend in number of establishments again began to fall, dropping off slowly from about 200 to about 185.

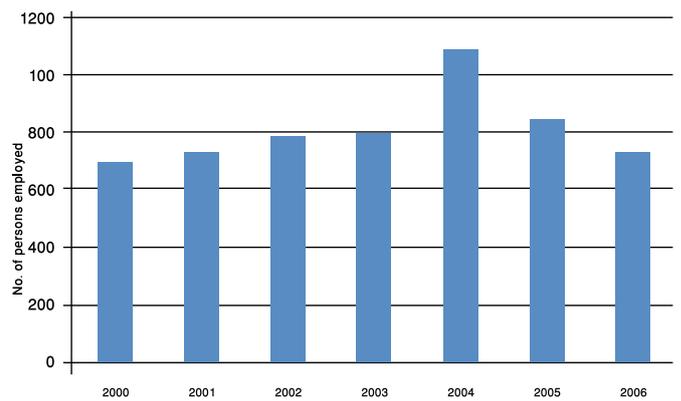
Figure 4-2: Trends in Domestic Market Size and Share of Printing, 2002–2005



**Figure 4-3 Trends in Establishments, 2000–2006**



**Figure 4-4 Trends in Employment, 2000–2006**



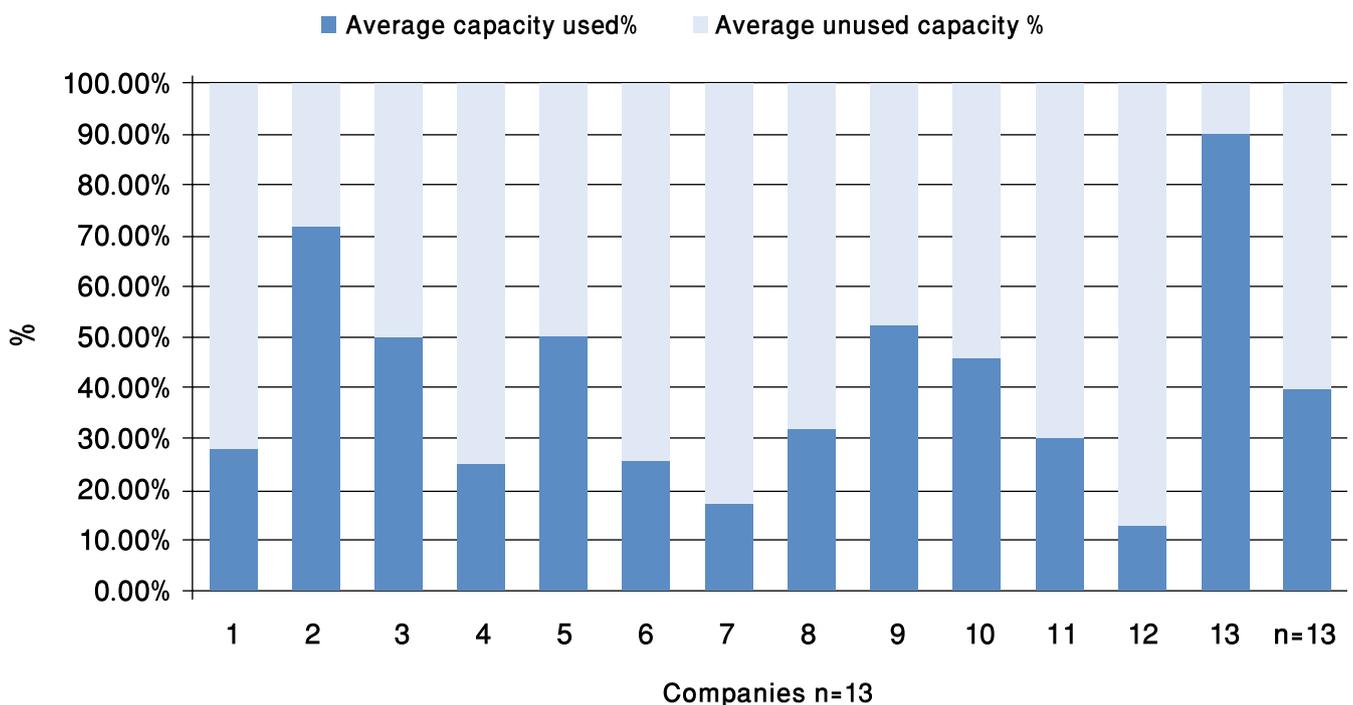
The maximum capacity of any company surveyed is over US\$580,000 per month, although production capacity ranges from this high to the lower end of the range, of less than US\$2,000.

Current production levels are much lower than the maximum however. Based on survey responses, nearly all firms are operating at or below 50 percent capacity. Only one firm surveyed is operating at above this, at 90 percent. The following chart illustrates the 13 sampled firms' capacity utilization, which averages 40 percent.

### Geographic Distinctions in Production and Sales

Regional trends in printer services sales have changed since 2000, with a sharp drop in sales to Israel—from nearly 25 percent to less than five percent over five years. Meanwhile, sales to all regions of the West Bank have increased, with the largest percentage of sales in the Middle region, in and around Ramallah, followed closely by the north—Nablus and Jenin—where a number of printers are located.

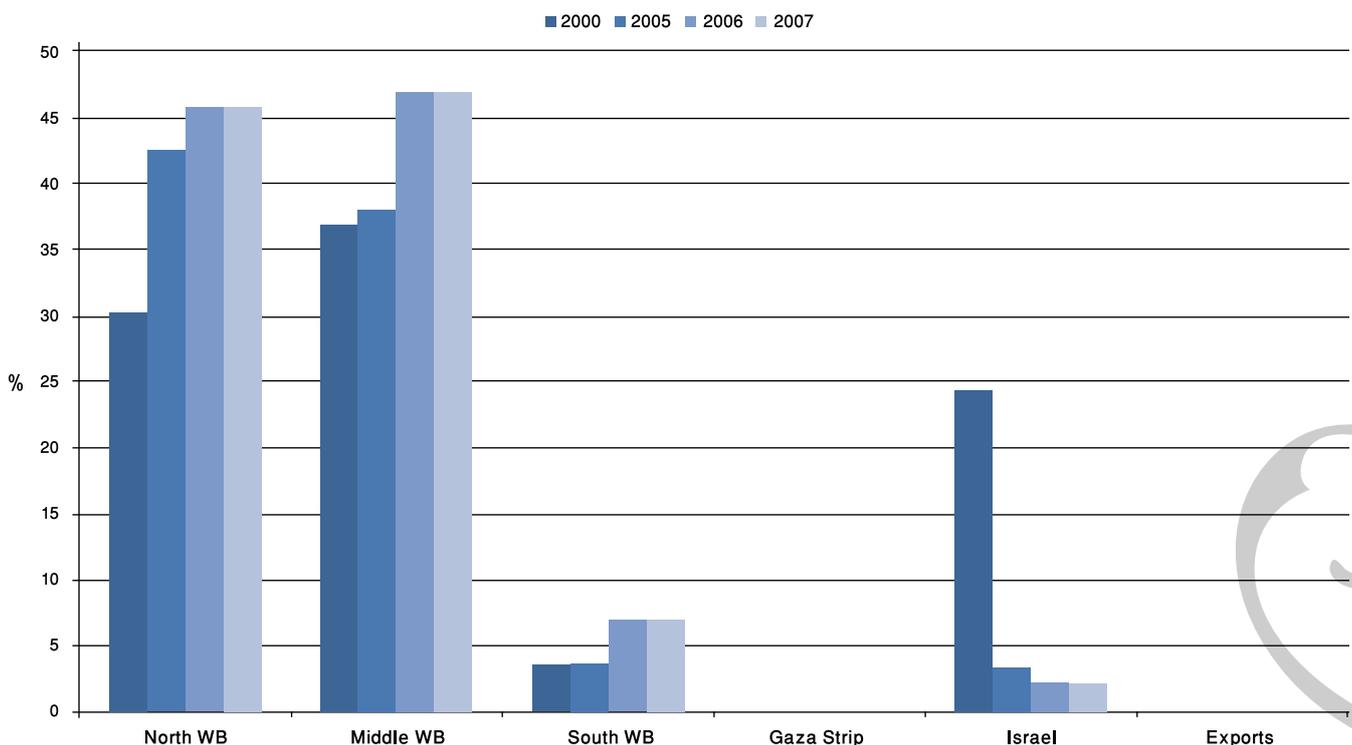
**Figure 4-5: Capacity Utilization of Sampled Domestic Firms**



Imports in the printing sector come primarily from Israel, with China also represented. 33 percent of survey respondents stated that they do not face any obstacles in importing inputs to the printing business. However, of those that do, 42 percent cited financial difficulties and 8 percent each mentioned lack of know-how, difficulties from the PNA, and difficulties caused by Israeli restrictions. 36 percent of respondents felt that changing Israeli standards for raw materials are a major challenge, while high taxes and importer control over the process were also cited as important issues.



Figure 4-6: Geographic distribution of sales



## 5. Competitive sub-sector analysis

### Differentiation of Products: Price/Quality

Price, quality and experience were identified by producers as the most important factors determining competitiveness. Approximately 80 percent of respondents cited price as very important. 90 percent of respondents cited lack of quality as an important challenge, followed by difficulties keeping prices competitive and maintaining quality. Among importers, price, quality, and design were cited as the most

important factors, with the general impression being that imports are more competitive than domestically produced goods.

Domestic firms have made some progress on improving quality in recent years as consumers have increasingly required it. However, a lack of investment in this sector has kept firms from being able to modernize their processes and procedures. The cost of purchasing and maintaining primary machinery is prohibitive in many cases. While machinery that is 10 to 15 years old is not considered out of date in this industry (due to the high quality and longevity of the Heidelberg machines universally used) 55 percent of machinery used in this industry is more than 20 years old. In addition to maintenance

issues this means that Palestinian producers are using outdated printing processes.

A needs assessment on printing presses prepared by the Palestine Small Enterprise Center in May 2007 described the role that Israeli firms played in both outsourcing to the West Bank and providing maintenance for equipment. As these relationships have dwindled and restrictions on Israeli travel into West Bank cities have been instituted, quality maintenance has become even more challenging.

Of the 13 printing firms surveyed, four have quality standards departments, the largest of which has five employees. As might be expected, these are the four largest firms included in the survey. No firms have any sort of local or international quality certification.

### **Differentiation of Products: Marketing Strategies**

According to the 2008 producer survey, only about 34 percent of printing firms develop marketing and distribution plans. As a result, firms compete only on price, which has been driven lower and lower as competition in the domestic market has increased in recent years. This in turn has driven some firms out of business. More nuanced approaches to marketing based on quality or the provision of unique products and services may enable firms to charge prices that can sustain their existence.

### **Retailer Perceptions**

A short non-representative survey of printing product retailers in the West Bank was conducted to obtain additional perception data on the competitive constraints and opportunities for local processors in this industry. The majority of Printing retailers are located in Ramallah and Al-Bireh (40 percent) followed by Hebron (30 percent) and then Nablus, Bethlehem, and Jenin with 10 percent each. Retail businesses are typically small and family owned, operated with an average of 3 full time employees and 68 square meters in size. Marketing expenditures are extremely low, averaging \$200 per year.

Retailers prioritize high costs as a major challenge when sourcing locally produced goods (62 percent), followed by difficulties crossing internal barriers and checkpoints (43 percent)

and difficulties in obtaining a consistent supply of inventory (38 percent). 60 percent of retailers surveyed believe that Palestinian consumers prefer imported goods over local ones. The estimated value of locally procured goods was US\$20,833 while that of imported goods was US\$5,700.

### **Strengths, Weaknesses, Opportunities, and Threats (SWOT)**

Information on the strengths, weaknesses, opportunities, and threats in the printing sector was gathered through the Paltrade surveys and other resource materials, including the recent Small Enterprise Center—Palestine needs assessment.

In general the printing industry in the West Bank is competitive in the domestic market, maintaining close to 95 percent of market share in a select measure of products. Palestinian firms have made some progress in improving quality and capacity in recent years and have been able to fill gaps in the market created by stringent Occupation policies restricting imports.

However, the challenges to the industry are significant. Most firms are long overdue to upgrade their machinery and skills and they face a lack of locally available trainings and mechanics to maintain and improve operations. While firms are eager to upgrade their skills and operations, opportunities to do so are limited and have tended to rely on donor funding. The need to develop local skills in a range of supporting industries is paramount.

## **6. Recommendations and interventions**

To raise competitiveness in the domestic market, investment is sorely needed in the Palestinian printing sector. Increased investment may require interventions on the part of donors or local support organizations as the high costs and limited opportunities for financing from banks and other lending institutions makes upgrading a challenge for individual firms.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Dominance in the domestic market in book publishing</li> <li>• Increasing capacity to handle large tenders</li> <li>• Increasing quality of products</li> <li>• Relatively high wages in the sector motivate training and higher skilled technical workers.</li> </ul>	<ul style="list-style-type: none"> <li>• Machines are old and outdated, affecting the quality and efficiency of printing services.</li> <li>• High costs of printing presses and other machines (gluing, bending, cutting).</li> <li>• Lack of qualified experts in both managerial and marketing fields</li> <li>• Lack of local skills in machine maintenance.</li> <li>• Inability to obtain credit based on restrictive bank policies/lack of legal infrastructure.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Eagerness to learn new skills and attend trainings (some willingness to cost share).</li> <li>• Continued focus on improved quality and design.</li> <li>• Production of additional products such as packaging materials and labels.</li> <li>• Available unused production capacity.</li> </ul>	<ul style="list-style-type: none"> <li>• High degree of competition in price leads to a very low profit margins</li> <li>• Political instability.</li> <li>• Difficulty transporting finished products throughout the West Bank and Gaza.</li> <li>• Late payments in Government tenders</li> <li>• Inability to rapidly import needed inputs such as spare parts.</li> <li>• Reliance on Israeli suppliers.</li> </ul>

Furthermore, many printers continue to run their operations as they have for decades, with little attention to improvements in marketing and management skills required for modern firms.

### Improving sector-specific skills

Outdated skill sets within the printing industry inhibit efficient management of costs and differentiation of products by quality, resulting in lower incomes for printers. Some of the following trainings are available through the Heidelberg training center in Egypt and the PFI is planning to send some industry stakeholders to receive trainings in the coming months:

- Basic & advanced training in printing
- Printing press management
- Printing Insurance
- Color management
- Design software
- Quality assurance
- JDF System
- ISO 12647
- Printing production planning
- Printing production
- Printing obstacles
- Vocational training for maintenance

The industry should coordinate with Palestinian

universities, vocational training centers and international institutions to train trainers abroad and establish trainings for local producers in the above mentioned fields.

### PSD Training

Training is also needed in modern management and marketing techniques. As many firms are family run, and have been so for generations, training happens on the job and is unlikely to include new techniques or industry best practices. Some sector specific trainings in the following areas are also available through the Heidelberg training center in Egypt:

- Marketing: Firms do not have marketing strategies and so compete only by driving costs lower—an unsustainable strategy.
- Costing & Pricing: Costing in the printing industry is extremely complex and many firms do not use a scientific approach. This contributes to challenges in remaining profitable.
- Management: While owners and operators in the printing sector are relatively well educated, they may not necessarily be trained in the specific industry.

### Upgrading Technology

While high quality printing presses and other machines can last for many years, maintenance needs increase over time, requiring expertise and access to spare parts.

Furthermore, newer technologies bring the potential for improved quality and a wider variety of products, which may assist firms to compete in sub-sectors currently dominated by imports, including packaging, labels and production of boxes.

## Finance

Palestine does not have laws on leasing and it is not currently possible to use movable property as collateral. Furthermore, risk adverse lending institutions require burdensome levels of collateral for loans. This restricts investment in all sectors, and particularly those that are capital-intensive such as printing. Increased efforts are needed to develop supporting legislation and to work with banks to develop financial products to support businesses to obtain the investment and working capital they need to grow.

## Sectoral information

As this study illustrates, information about the printing sector remains incomplete and challenging to obtain. Sector associations have good access to firm-level information—and are often able to obtain high quality data on sales—yet this information is not widely distributed or made available to other institutions.

- Conduct a needs assessment of the PCBS to improve capacity to gather and disseminate economic data;

- Develop a data support unit to improve cooperation among sector associations, relevant institutions and the PCBS.

## Additional Research Needs

Broad-based recommendations are possible for the sub-sector as a whole, but linking specific activities to increases in domestic market share will require target research at the product level.

- Develop product-level consumption survey to identify opportunities in cost/positioning/marketing/ etc. and drive company level decisions.
- Additional analysis is needed to identify the steps and support needed for domestic producers to enter into potentially lucrative new areas such as packaging, labeling, and boxes.
- Research into the potential for the recycling industry is also needed. Currently paper waste (which amounts to 10-15 percent of paper used) is re-exported through Israeli agents.
- Research into the development of a private company to facilitate the import and local storage of commonly needed raw materials and spare parts. This will diminish the delays that producers currently face, some of which lead to shut downs in processing for days or weeks, and will enable producers to obtain better prices through bulk purchasing. The West Bank Heidelberg representative, the PFI, and individual firms have expressed support for this idea but additional private or public sector backers may be needed.

## Supporting Institutions

Institution	Contact information
Ministry of National Economy	Website: <a href="http://www.mne.gov.ps">www.mne.gov.ps</a>
Palestinian Central Bureau of Statistics (PCBS)	Website: <a href="http://www.pcbs.gov.ps/">http://www.pcbs.gov.ps/</a>
Palestinian Federation of Industries (PFI)	Ramallah: P.O. Box 574, Ramallah, Palestine; E-mail: <a href="mailto:info@pfi.ps">info@pfi.ps</a> ; Website: <a href="http://www.pfi.ps">http://www.pfi.ps</a>
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Palestine Standards Institution (PSI)	Website: <a href="http://www.psi.gov.ps">http://www.psi.gov.ps</a>
Palestine Trade Center (Paltrade)	Head Quarters (Ramallah Office): AlWatanieh Towers Bldg., 5th floor, Al-Bireh; P.O. BOX 883, Ramallah, Palestine; Tel: +970 (or 972) 2-2408383; Fax: +970 (or 972) 2-2408370 Website: <a href="http://www.paltrade.org">www.paltrade.org</a>





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